

PREM 19/1312

Part Two

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SECRET

CMO.

Confidential Filing

Strategy for Industry and Employment

Chequers seminar on employment and follow-up action.

Attempts to reduce the burden of regulation on the economy

MANPOWER

Part 1 Feb 1983

Part 2 April 1984

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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PART 2 ends:-

AT to HMT + Meeting Record 29.5.84.

PART 3 begins:-

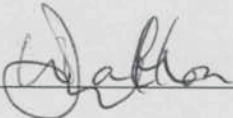
SS/DES to Ch/Exch 5.6.84.

## Published Papers

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

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House of Commons HANSARD, 2 April 1984, column 413 to 414: Wage Earners (Statistics)

Signed  Date 26/09/2013

**PREM Records Team**

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SUBJECT

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COPY NO: 11  
OF 11 COPIES

10 DOWNING STREET

From the Private Secretary

29 May 1984

Dear David,

SEMINAR ON INDUSTRY AND EMPLOYMENT

I attach a checklist of conclusions and matters to be followed up arising from the meeting at Downing Street last Friday. The meeting was devoted almost entirely to the two papers submitted by the Secretary of State for Employment. The paper on wider ownership was touched on only briefly.

The Prime Minister would be grateful if the Ministers indicated could take the action attributed to them in the note, consulting with 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 appropriate. Alternatively, papers can be circulated to ad hoc groups of Ministers. This Office will be happy to advise on the appropriate channels.

The Prime Minister expects to hold a further meeting of this kind in the autumn. It was agreed that a major part of the agenda should be devoted to deregulation. The Policy Unit will be preparing a paper suggesting areas for discussion.

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 origin of the remit.

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

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(Department of the Environment), Alex Galloway (Chancellor of the Duchy of Lancaster's Office), David Normington (Department of Employment); to the Chairman of the Manpower Services Commission; and to Richard Hatfield and Peter Gregson (Cabinet Office). A copy also goes to Callum McCarthy (Department of Trade and Industry), whose Secretary of State was unable to attend the meeting.

*Your sincerely  
Andrew*

Andrew Turnbull

David Peretz, Esq.,  
H.M. Treasury.

DSGAAD

SEMINAR ON INDUSTRY AND EMPLOYMENT:  
CHECKLIST AND CONCLUSIONS

- (i) The Secretary of State for Employment, in consultation with the Chancellor of the Exchequer and the Chancellor of the Duchy of Lancaster, to develop the "Passport for a Job" proposal, considering the problems of dead weight and displacement of other workers, the age group to be covered, and the cost in terms of tax and contributions foregone.
- (ii) The Secretary of State for Employment to bring forward a paper to E(A) on Wages Councils. This should indicate the extent to which modifications can be made to the operation of Wages Councils within existing ILO Conventions.
- (iii) The Secretary of State for Employment, in consultation with the Chancellor of the Exchequer, to put forward proposals for the Enterprise Allowance to be granted on demand, identifying offsetting savings within Department of Employment or MSC programmes.
- (iv) The Secretary of State for Education and Science, in conjunction with the Chancellor and the Secretaries of State for Trade and Industry, and Employment, to consider how best to carry forward Sir Christopher Lawson's ideas on improving understanding of the economic facts of life.

- (v) The Secretary of State for Employment, in conjunction with the Chancellor of the Exchequer, to provide material for a publicity campaign to get across the positive approach of the Government towards the generation of new jobs through freer operation of labour markets. This material should counter the view that the Government was removing rights and protections by emphasising the benefits of removing restrictions.
  
- (vi) Mr. Young to prepare a note on the work of the MSC in improving the quality of management in small and medium-sized enterprises.
  
- (vii) The Secretary of State for Employment to circulate a paper on the balance of power within unions.
  
- (viii) The Secretary of State for Employment to prepare a paper considering the case for repeal or amendment of statutory employment protections. This should cover the case for exempting enterprises up to a certain size; extending the qualifying period; or excluding new businesses. It should also consider ways of improving the tribunal system, for example by simplifying procedure and the use of a single stipendiary chairman rather than a panel.
  
- (ix) Mr. Young to consider how to develop further retraining packages to be offered in cases of major redundancies. He should continue discussions in this area with the NCB. Mr. Young to provide the Secretary of State for the Environment with material



on the operation of MSC programmes in Liverpool, in particular the supply of, and demand for, places on Mode B1 of YTS.

- (x) The Chancellor of the Exchequer, in consultation with the Secretaries of State for Social Services, Employment and Environment, to study, within the constraint of existing public expenditure totals, the cost-effectiveness of various measures and programmes relevant to employment. They should consider whether other measures, e.g. parts of the Urban Programme and other specific programmes which the Secretary of State for the Environment may wish to suggest, might create jobs at acceptable cost if adequate offsets could be identified.
  
- (xi) The Chancellor of the Exchequer to consider the evidence for capacity limitations within the manufacturing sector as the recovery continues.
  
- (xii) The Secretary of State for Social Services to consider, in the context of the reviews of social security, ways of reducing the poverty and unemployment traps.
  
- (xiii) The Policy Unit to prepare a paper for a meeting of the group in the autumn, identifying areas where deregulation could be carried forward.
  
- (xiv) The Chancellor of the Exchequer to consider the taxation of pension funds both as a way of seeking additional revenue to finance an increase in tax

thresholds and in the context of promoting wider direct ownership of shares.

- (xv) The Secretary of State for the Environment to pursue ways of forcing local authorities and public corporations to release surplus land and of requiring local authorities to let, or failing that, sell vacant dwellings.

25 May 1984

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MR. REDWOOD

POVERTY AND UNEMPLOYMENT TRAPS

The Prime Minister saw your note about the poverty and unemployment traps over the weekend. Her comment on it, which I assume relates to the proposal in the Annex to raise extra revenue from VAT, was as follows:

"The increase in the RPI and the consequent wage claims would set us off on the wrong path just when we need to keep wage increases down."

*MR. D. BARCLAY*

29 May 1984

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SECRET: CMO

Not to be circulated out of No.10

SEMINAR ON INDUSTRY AND EMPLOYMENT: MEETING HELD AT  
10 DOWNING STREET ON 25 MAY 1984

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
- Chancellor of the Duchy of Lancaster
- Chairman, Manpower Services Commission  
(Mr David Young)
- Mr. Gregson
- Mr. Redwood
- Mr. Turnbull

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The meeting considered two papers by the Secretary of State for Employment, the first examining likely trends in

\employment

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employment and unemployment; the second policies affecting the labour market. The Secretary of State for Employment said the suggestion of a discussion on employment had come up at Cabinet in March when, despite favourable indicators from almost every other sector of the economy, unemployment was still rising. It was worrying that this was still happening in the fourth year of the recovery when there were a number of disturbing signs from financial markets abroad. The prospect was that even if growth were continued unemployment could rise or at best fall slightly. The work done in conjunction with the Treasury indicated that in three years' time unemployment might lie in the range 2½-3½m. Since the discussion in March unemployment had continued to rise and large scale redundancies were still being declared, particularly in manufacturing. It was possible that new technology could accelerate the growth of productivity and reduce the growth of employment in areas such as finance and distribution which had hitherto provided substantial numbers of new jobs.

The meeting noted the contrast between the US and Europe. Five factors were identified contributing to the US' superior performance in creating jobs - the enterprise culture; more rapid deregulation; a lower level of welfare underpinning wages; much slower growth of real wages; and less unionisation. It was noted, however, that productivity, although at a high level, was growing less rapidly.

The Secretary of State for Employment advocated a publicity campaign to put across the Government's message on jobs. All too often the Government appeared in a negative light as removing rights and protections and taking measures which would adversely affect the poor. It was important to get across the positive benefits of measures to remove restrictions.

\The meeting

The meeting then discussed the proposal originally put forward by Lord Cockfield of a "Passport for a Job". It was suggested that employers taking on workers under 18 at wages of less than £45 a week could do so outside employment protection legislation and without having to collect PAYE or NI contributions. In discussion, it was agreed that there were many attractions to such a scheme which would help improve the relativity between youth and adult wages and would free employers from paper-work. There were also a number of difficulties to be overcome. It was noted that, for demographic reasons, the numbers of 16-18 year olds would soon be declining. The group most severely affected by unemployment would be the 18-25s but if the limit of the scheme were set at under 18 this group could be put at a further disadvantage. The problems of deadweight and the displacement of other workers would need to be examined to see if the scheme would be cost effective. It was agreed that the Secretary of State for Employment, in consultation with colleagues should work out the proposal.

The Secretary of State for Employment said that if "Passport for a Job" were adopted the case for amending the statutory employment protections would be less pressing. Marginal changes could stir up criticism out of all proportion to the benefits. Others felt that the Employment Protection Act was still an important obstacle to the proper function of the labour market. The Secretary of State for Employment agreed to prepare a paper considering what amendments could be made.

The Secretary of State for Employment said he would shortly bring forward a paper to E(A) on wages councils. This would consider what changes could be made to the operation of wages councils within existing international agreements. The Prime Minister suggested that the UK should inform the ILO of the changes it wished to make and should state that if the latter were unwilling to accept them the UK would renounce the convention. It was noted that the

extent of unionisation in the UK was declining (the Secretary of State for Employment said this would be brought out in the paper he was circulating shortly on the power of trade unions). Abolition of wages councils could provide a stimulus for a new recruiting drive.

The meeting then noted the poor quality of UK management, only 2 per cent of whom had received formal management training. It was difficult for good managers, as opposed to proprietors to accumulate wealth. The legislation of stock options should help rectify this and produce a more entrepreneur minded management as would the Government's effort to increase competition in the economy. Mr Young referred to the work of the MSC in providing management training for small and medium size enterprises. The MSC was also active in putting together retraining packages which employers could offer in cases of major redundancies. He had had discussions with the NBC in this area.

The Secretary of State for Education and Science lamented the poor understanding of the economic facts of life. Sir Christopher Lawson had developed a number of ideas for tackling this and it was agreed that they should be pursued. It was noted that efforts to get the message through to school-children need to be careful if schools were not to be politicised.

The Secretary of State for the Environment said there had been criticism in Liverpool about cutbacks in the provision of Mode B1 (Public Sector) YTS places. Mr Young said that this was because there had not been sufficient uptake and it was costly to keep unused places open. He agreed to provide the Secretary of State for the Environment with briefing on MSC programmes in Liverpool. The Secretary of State for the Environment said his review of

SECRET: CMO

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the urban programme was nearing completion. The main lesson to be learned was the need for greater co-ordination between the various departments and agencies concerned. Mr. Redwood said the Policy Unit's review of enterprise in the regions had indicated the importance of co-operative local authorities. Where these were absent it was difficult to make progress. The advantage of urban development corporations or new towns was that all the necessary powers were concentrated in one place.

/ The interaction

SECRET: CMO



The interaction of benefits and taxation could create a major disincentive for the unemployed to seek work. It was noted that the social security reviews being undertaken by the Secretary of State for Social Services would be examining the poverty and unemployment traps.

The Secretary of State for Employment said that despite the recent increase in places to be offered, there was still a waiting list for the Enterprise Allowance. This was the most successful and most popular of the MSC's schemes and he recommended that it be made available to all comers. This was agreed provided he could identify offsetting savings on other less effective programmes.

The discussion then turned to whether it would be prudent to examine, on a contingency basis, measures which could be introduced at short notice if, say in 1986, unemployment showed no signs of declining. In discussion, it was argued that the Government should not be looking for ways of increasing spending on employment measures but at ways of making more effective use of existing provision. To do this, it was necessary to compare the cost-effectiveness of the various measures and programmes so that ineffective schemes could be cut back and more effective schemes expanded. In doing this it was argued that account could be taken of offsets through savings in benefits, where these could be properly identified. Summing up this part of the discussion, the Prime Minister invited the Chancellor of the Exchequer, in consultation with the Secretaries of State for Social Services, Employment and the Environment, to study the cost-effectiveness of various measures relevant to employment, within the constraint of existing totals for public expenditure. They should consider whether other measures, e.g. parts of the Urban Programme and other specific programmes which the Secretary of State for the Environment may wish to suggest, might create jobs at acceptable cost if adequate offsets could be identified.

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The Secretary of State for Energy said that industrialists feared there could soon be capacity constraints if the recovery continued. It was important that industry responded by increasing investment. The Budget had created an incentive to bring investment forward but it was not clear whether industrialists were sufficiently aware of this or were responding adequately.

Concluding the discussion on employment, the Prime Minister said it was not necessary to hold a general discussion in Cabinet on the subject. Various measures should be brought to Cabinet or its Committees for decision as appropriate.

There was only a brief discussion of the paper on wider ownership. The Chancellor said that he would be looking at the taxation of pension funds both as a way of raising revenue to increase the thresholds and in the context of encouraging direct ownership of financial assets. The Secretary of State for the Environment said that any departure from the principle that the build up in the pension fund was exempt, while the benefit was taxed, would be extremely controversial and changes could be made only over a period of years. The Chancellor of the Duchy of Lancaster emphasised the need to make buying shares easy. He feared that the changes in the structure of the Stock Exchange would, while favouring institutional investors, have the opposite effect.

The Prime Minister urged the Secretary of State for the Environment to exert pressure on local authorities and public corporations to release surplus land. The Secretary of State for the Environment said he had the necessary powers; the difficulty was to identify when land was surplus and being hoarded unreasonably. It would be helpful if there were a conspicuous case in which he was able to

issue an order. Mr. Gow was working on a proposal to require local authorities to sell any dwellings which had been unlet for greater than a specified period.

The Prime Minister said she wished to hold a further meeting in the autumn. Among the subjects for the agenda would be the scope for further deregulation. She invited the Policy Unit to prepare a paper identifying areas where deregulation could be accelerated.

25 May 1984



10 DOWNING STREET

From the Private Secretary (2)

Prime Minister

The meeting today touched on poverty and employment traps. Policy Unit have prepared a note this - attached.

You may also like to look at the terms of reference and scope of the benefit reviews. They cover poverty and unemployment traps.

The increase in the RPI is  
and the Government will claim 25/3  
would reduce off on the wrong  
path ~~is~~ just put  
where need to keep  
will increase down

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PRIME MINISTER

The papers for the Seminar are arranged as follows:

Section 1

- 1(a) Cabinet Office brief. Sir Keith Joseph will have to leave the meeting for half an hour between 1100 and 1130 to make his statement to the House on Parent Governors.

Section 2

- 2(a) Mr. King's papers. †  
2(b) Mr. Tebbit's comments.  
2(c) Policy Unit comments. †

† = you have already read these

Section 3

- 3(a) Policy Unit paper on Wider Ownership. †  
3(b) Factual Annexes.

Section 4

- 4(a) Policy Unit paper on Further Work.

Section 5

- 5(a) Policy Unit paper on Poverty and Unemployment traps (optional at this stage).

In addition in Section 1 you will find the Chancellor's note on public expenditure about which you may want to warn colleagues.

24 May 1984

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PRIME MINISTER

Employment seminar: 25 May 1984

Since there is already more than enough paper for Friday's seminar, this brief is confined to suggestions about how the discussion might be organised.

2. Those attending have already been warned to expect an agenda structured broadly as follows:

- i. Employment (Papers by Secretary of State for Employment)
  - a. Policies affecting the labour market and employment
  - b. Employment prospects.
- ii. Wider ownership (Paper by No 10 Policy Unit)
- iii. Other matters
  - a. Oral reports on matters outstanding from earlier meetings
  - b. Suggestions for new subjects for consideration in the autumn.

Depending on how the discussion goes, you may want to allocate the time roughly as follows:

  
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9.30 - 11.15 am	Employment
11.15 am - 12 noon	Wider ownership
12.00 noon - 12.30 pm	Other matters (with the emphasis on suggestions for new subjects).

Employment

3. It would probably be sensible to ask Mr King to introduce both his papers together. The paper on Employment Prospects is best seen as a background document to the paper on Labour Market and Employment Policies. In brief Mr King is saying:

- i. Barring unexpected shocks, adult unemployment in three years' time might be expected to fall somewhere in the range 2½-3½ million; Mr King thinks it will be in the lower part of the range but acknowledges that it might be worse.
- ii. The following action should now be taken:
  - a. A concerted public campaign "to make clearer to people the freedom that now exists for them to generate jobs whether for themselves or for others".
  - b. Some further measures to remove constraints on the labour market and to assist particularly the young and the long term unemployed.  
(From the options listed in Annex 1 to his paper he favours particularly "passport for a job" and an extension of the Enterprise Allowance Scheme.)

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SECRET

c. Contingency planning for measures in early 1986, if trends appear unfavourable then, ie either an expansion of certain special employment measures or labour intensive publicly financed projects.

4. The discussion might be structured as follows:

i. the general strategy

is continuation of the Government's existing policies based on freeing the market - possibly supplemented at the margin and better presented - likely to produce acceptable levels of employment by the end of this Parliament?

is there in fact a viable alternative?  
(Mr King implies that a "public works" alternative might have to be adopted in 1986; but the Government has so far avoided this because it could only be done at the expense of more borrowing or higher taxation and could not be relied on to produce more jobs overall)

ii. how best to reinforce the existing strategy

is the "public campaign" proposal right? and, if so, what should be its timing?

is it essential to the campaign to add some extra measures?

iii. what specific extra measures appear most promising?



  
SECRET

- a. "Passport for a job"?  
(Has the major earlier objection - the probable high deadweight - been answered?)

Is further discrimination in favour of young workers, which may merely deprive older workers of jobs, justified? What is required at this stage is a preliminary view on the merits, as a basis for further work to establish practicability, the relationship with the existing Young Workers' Scheme, and the detailed scope.)

- b. Extension of Enterprise Allowance Scheme?  
(If it is thought desirable to extend on a demand-led basis with the cost of perhaps £70-80 million a year, should this not be considered in the normal way as a bid in this autumn's Public Expenditure Survey?)

- c. Other possibilities?

Should the employment protection legislation be further relaxed (as discussed in Annex 1 A14-16 or repealed?)

Is the action on relieving small firms of administrative burdens (Annex a E7 and E9) adequate?

Should more be done to relieve tax burdens on casual and part-time employment and clear up the black economy (Annex 1 A12)?

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Is the action to improve educational standards (Annex 1 C3-5) adequate?

(Work on many of the other possibilities in Annex 1 is already in hand and will come to Ministerial Committees soon, eg the possible abolition of Wages Councils, the review of benefits, the new levels of regional grant and the assisted areas map, or is being separately considered, eg the next tranche of industrial relations legislation).

Wider ownership

5. The paper by the No 10 Policy Unit proposes that further stimulus should be given to the wider ownership policy by:

- encouraging more council house sales
- policies to associate people with their pension fund wealth more directly
- fiscal neutrality between savings mechanisms
- encouraging individuals to participate more in the City
- wider share ownership through privatisation.

6. You will want to invite the Secretary of State for the Environment to comment on what more could and should be done to foster council house sales. Has the Government gone as far as it reasonably can on the size of the discount

SECRET

SECRET

and the period during which the discount can be clawed back?

7. On fiscal neutrality, both in relation to pension schemes and to alternative methods of saving, you will wish to ask the Chancellor of the Exchequer to comment. What scope is there for going further down this path?

8. On wider share ownership generally, the policy issue for Government is whether there is legislative and regulatory action which would facilitate rather than impede the changes in the City which may make share ownership more accessible to individuals. On wider share ownership in the context of privatisation, there is already a major effort in train, especially in the context of the BT sale. Can any more be done? On both these matters you will want to seek comments particularly from the Chancellor of the Exchequer.

Other matters

9. It is doubtful whether there are any significant matters outstanding from earlier meetings which are not already being dealt with or come up in some form in the papers circulated for this meeting. Nevertheless it will do no harm to ask the participants whether there are any brief remarks they want to make about matters outstanding from earlier meetings.

10. The more important task for the last part of the meeting will be to invite suggestions for new subjects on which work might be done during the summer in preparation for the next major seminar - perhaps, as last year, in September at Chequers.

*PLG*

P L GREGSON

24 May 1984

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SECRET



SECRET AND PERSONAL: CMO

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PRIME MINISTER

EMPLOYMENT PROSPECTS AND POLICIES AFFECTING THE LABOUR  
MARKET AND EMPLOYMENT

I am sorry not to be able to participate in the discussion on 25 May on the two important and excellent papers by the Secretary of State for Employment. I thought it would be helpful if I were to let you have in writing the main points which I would have wanted to make in the discussion.

2 The paper sets out the difficult prospects over the next few years and I have no basis for challenging them. There will be concern that after nearly a decade of our economic strategy adult unemployment will still be regrettably high. We must be able to develop further the understanding of the reasons for high unemployment - not least that the price of too much of our labour force is too high in relation to its past levels of productivity.

3 I agree with the broad approach outlined by the

JH2AMW



SECRET AND PERSONAL: CMO

Secretary of State for Employment in the Policies paper. Both the campaign and the specific measures identified should help create conditions in which employers would be less reluctant to take on new labour. Regrettably past labour problems and the difficulty of adjusting labour forces to demand lead to cases where firms would rather let demand for their products leak into imports than meet that demand by expanding employment.

4 These considerations would prompt me to suggest that we should not only look at radical measures like the passport for jobs (though I have reservations about that) but also a selection from the menu in annex 1 to the Policies paper, but above all to the continuance of the education programme which both Government and Party undertook between 1981 and 1983. That, rather than demand stimulus measures which seem to be implied in para 11.2 of the paper, would seem to offer the best prospects of success in both improving the situation and living with what cannot be cured.

5 Turning to points of specific DTI interest I have the following comments:

JH2AMW



SECRET AND PERSONAL: CMO

- a) Labour costs - I see increased earnings as a major threat to job prospects. The recovery led to softness in resisting wage demands and the downward pressure has been halted. It is long overdue that we resolve to scrap the Wages Councils as a further signal of our determination.
- b) Labour quality - my Department would wish to continue to help bring industry and education into closer contact in getting schools to be more industry and technology oriented and ridding them of anti-industry and wealth creation bias.
- c) Labour mobility - I fully support the measures to encourage labour mobility. Steps to improve and simplify house purchase, which incidentally are also desirable aims of competition policy, are relevant here, as are improved pension transfer arrangements, but the most important single step would be the restoration of the privately rented sector.

JH2AMW



SECRET AND PESONAL: CMO

- d) Labour mobility (Regional Policy) - whilst I will certainly look to see whether there is more we could do to increase the job creation scope of the new scheme, I would not want to set aside the aims of cost effectiveness and sound investment and there are EC problems.
- e) Patterns of Work - We need to avoid giving credibility to the soft option of shorter working weeks without shorter pay. On more detailed points within this Section - I would hope that other Departments will help us on easing burdens on small firms. We have done almost all we can within the DTI. The Small Firms Loan Guarantee Scheme has been a useful job creation measure and we have announced an extension until the end of the year. Provision beyond that will depend on decisions in the PES round. On Insolvency Law Reform I am certainly willing to look a the balance of the measures in the White Paper proposals. I do not want to frighten off good management for new businesses but equally I must be careful about providing a charter for those who are ready to abuse the scope of limited liability.

JH2AMW



SECRET AND PERSONAL: CMO

6 I am sending copies of this minute to the Chancellor, the Secretaries of State for Education and Science, Energy, Environment and Employment, to the Chancellor of the Duchy of Lancaster, to David Young and to Sir Robert Armstrong. I would be grateful if all copy recipients would ensure that this minute is treated in the same way as other papers circulated for this meeting.

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24 May 1984

Department of Trade and Industry

JH2AMW



24 May 1984

PRIME MINISTER

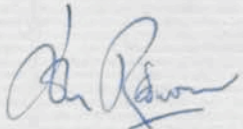
JOBS SEMINAR - FUTURE WORK

The last 30 minutes of the Seminar have been allocated to discussion of how to carry the work of this group - and the policy work of the Government - onwards. The aim is to encourage ideas at the meeting. Here are a few which are worth particular attention, and could result in follow-up papers at the September Seminar.

1. The need for wide-ranging deregulation - how to build on the initiative on buses in other areas of the economy. The Annex to this paper sets out a range of possibilities where further work would be valuable.
2. The problem of derelict land, urban decay and the range of policies being used to make an attack upon dereliction and public sector wasteland.
3. Subsidising people, not companies, to generate jobs. If you agree that subsidising companies and expensive projects is far too costly a way of encouraging jobs, you could commission detailed work from the departments. They could report to the September Seminar on the relative costs of their various job-creating mechanisms, and their plans for concentrating on those areas which give the best value for money at the expense of the worst. Only you and Tom King have seen that part of the Policy Unit paper, and of course DTI will not be happy with all its conclusions.
4. The September Seminar might also like to look at the state of the financial sector, bringing in the work on building societies, City regulation, City markets, and the international trade questions involved (eg Japanese protectionism against UK financial institutions).

You could progress these issues by:

- a. Commissioning a Policy Unit paper on deregulation.
- b. Asking DoE, in consultation with other relevant departments, to report back on wasteland, urban dereliction and planning.
- c. Ask DTI, Employment and MAFF to put in views and figures on job support to the September meeting.
- d. Ask the Chancellor and DTI to work together on financial markets.

  
JOHN REDWOOD

SECRET

LATAAP

REGULATION - MARKET-FIXING

This list excludes health, safety and consumer protection, where there is a legitimate role for Government.

Transport

Buses in London - structure needs further examination in the context of the new rules for London Regional Transport.

London taxis - Nicholas Ridley seeking a way to stop fare regulation by government. He will need support.

Airlines - Government supporting a Western European initiative for deregulation and negotiating bilaterally as well. This needs considerable perseverance.

CAA has powers to approve fares. Are these needed?

Vehicle licensing is being reviewed. Officials should report in June.

Rail services - BR retains monopoly powers over the use or licensing of the track, and route closures require very complex procedures. We could investigate to see whether there is a politically sensitive way of deregulating a little.

Energy

Offshore licensing should be placed on an auction-only basis, removing the judgmental regulation currently involved.

Gas - there needs to be a right to export to help create a market.

Electricity - the freedom to generate which has been given by Statute now has to be made to mean something by selling off parts of the generating system to competing companies.

Education

Provision of private schools - Her Majesty's Inspectors regulate the provision of facilities as well as, or rather than, the standards of education provided. This can damage and deter new entrants setting up private school.

Higher education - the CNAAC can set out to regulate the wrong features of higher awards, and is currently under review. Keith should ensure suitable changes are proposed.

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Employment

This is being handled at the Seminar.

DHSS

There is a welter of complex regulation governing entitlements and entailing endless form-filling by benefit claimants.

All of these are coming up in the DHSS reviews. Simplification is possible, eg the Supplementary Benefit needs requirements are too numerous and complicated, but will need considerable political will behind it.

DTI

Insolvency Law - we need to avoid added burdens of regulation when revising the insolvency legislation.

Small Firms Initiative

Robin Ibbs' list has to be pursued vigorously by DTI.

Shop and Pub Hours

These are currently too restricted, although it may be necessary to retain bans on Sunday trading, and to prevent pubs opening in the early hours of the morning - particularly in residential areas. The other rules could be relaxed, and the question of drinks licences be reviewed.

Local Authorities

Section 77 of the Public Health Act 1961 gives LAs powers to regulate barbers, hairdressers and saunas. LAs can restrict markets in their locality. Their powers should be reviewed.

There is a danger that unless these are pursued vigorously, the Government will end up with more regulations than there were at the beginning (eg OFTEL, cable regulations, Gower City regulations, etc).

23 May 1984

PRIME MINISTER

WHY WORK?: POVERTY AND UNEMPLOYMENT TRAPS

The poverty and unemployment traps are damaging to jobs prospects and to people's self-esteem. Everyone agrees that something ought to be done about them. There are two suggested solutions on offer.

The Opposition solution is to raise Child Benefit by a large amount. This scheme does not work. The poverty trap is caused by the combined effects of paying income tax and suffering a sharp withdrawal of Family Income Supplement and Housing Benefit as income rises. For a married couple with two children, income in the ranges of £60-£90+ a week suffers tax and benefit loss of more than £1 for every additional pound of earnings. If you raise Child Benefit, then these families will be better off, as they will receive an untaxed benefit whether they are in work or out of work. However, it will still leave them facing benefit withdrawal and tax rates in excess of 100 per cent over a wide range of incomes.

By definition, raising Child Benefit can have no impact on the poverty trap for people without children.

What the Opposition fails to say is that raising Child Benefit would only reduce the poverty trap if, at the same time, means-tested benefits are cut. Abolishing or reducing Family Income Supplement and/or Housing Benefit would, of course, cut the poverty trap; but, at the same time, it would increase poverty. It is the economics of the madhouse to suppose that you can pay extra money to all the children in the land, finance this by cuts in the means-tested benefits that do most to relieve poverty, and, as a result, leave those who are poor better off. Instead, it would make the poorest families much worse off as the means-tested benefit was cut.

The Government approach to reducing the impact of the poverty and unemployment traps is to raise tax thresholds. Given time and enough resources, this can cure the problem without necessarily having to cut back on means-tested benefits. If everyone who was married with 2 children came into tax at £90 a week instead of just over £60 a week, then instead of paying a rate of tax and benefit withdrawal of 105 per cent on their marginal income, they would pay a combined rate of 75 per cent. Similarly, the single person in the income range £40-£85 a week receiving Housing Benefit, currently pays a marginal rate of tax and benefit withdrawal of almost 75 per cent. To the extent that tax thresholds could be raised, this marginal rate would be reduced from 75 per cent to 45 per cent.

The problem with this approach, whilst working in theory, is that in practice it is very expensive to get to a final solution. It will cost £9,500 million of lost tax revenue to take the single and married man's allowances up to the point where most people are taken out of the poverty trap. This sum would take everybody who was married with children above the Family Income Supplement threshold before paying income tax.

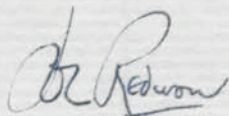
Whilst £9,500 million sounds like a lot of money, it is possible to think of ways of reallocating the tax burden so that thresholds can be raised by this amount. Raising thresholds would, of course, give tax advantages to people over the whole spectrum of incomes, and not just those affected by the poverty and unemployment traps.

The attached graphs show just how the trap operates for a single person and for a married family with 2 children. It demonstrates quite vividly that those benefits - Family Income Supplement and Housing Benefit - which do most to relieve poverty because they are well-targetted on those in need, are also by definition those which do most to exacerbate the poverty trap. We could not afford to switch away from targetted benefits for those in need to general benefits distributed widely throughout the population. It is, however, possible in the reviews of Housing Benefit, Supplementary Benefit and other welfare payments, to take into account the impact the current taper and the spread of benefit a long way up the income scale does have on worsening the traps.

#### Conclusion

The Chancellor is right in his main thrust to go for raising tax thresholds. It is an urgent problem. It must be worthwhile to work if we wish to cure unemployment. It must be possible to climb out of poverty without being trapped by the state tax and benefit system: otherwise self-reliance will be no more than a dream for the lower-paid.

In order to make an impact and win the debate, it is necessary to be bold, and to try and lift those on the main means-tested benefits out of the poverty trap as quickly as possible. At the same time, in the welfare reviews, reducing the range of incomes over which these means-tested benefits are paid is a necessary adjunct and would be acceptable politics against the background of a major increase in tax thresholds for those on lower incomes. The Annex shows a way of achieving the necessary changes in taxation to raise thresholds.



JOHN REDWOOD

SECRET

LASABA

22 May 1984

INCOME TAX

The current aim of policy is to increase thresholds.

1. As more people are taken out of tax, the poverty and unemployment traps are reduced. It is more worthwhile to work or earn more.
2. It makes little sense to tax single people on 21 per cent of average male earnings (33 per cent for married men) when there are means-tested benefits available up to average earnings.
3. We have one of the lowest starting points for income tax in the world, coupled with one of the highest rates for people coming into tax.
4. There is a general strategy of switching tax from income to expenditure, to improve the incentives for work and effort, and to give people some more discretion over how and when they pay their tax. This helps reduce avoidance and evasion, where the growing black economy is having a considerable impact on the relative net incomes of those who play the game and those who don't.

It would be possible, to take everybody on Family Income Supplement out of the tax system; but very difficult to take everybody on Housing Benefit out of it. A rough Treasury estimate is that it would involve losing £20 billion of tax revenue to take thresholds above the present Housing Benefit level, as it has gone so far up the income scale. It is therefore necessary to revamp Housing Benefit, targetting it more accurately on those in greatest need. Against the background of taking all these people out of tax, the extra taper entailed on the means-tested benefits would not increase, but would help to reduce the poverty and unemployment traps, as the savings are going to raising tax thresholds.

The arithmetic of the changes is:

Cost of increasing single person's tax threshold from £2,000 to £3,200 (current married man's threshold), and married man's threshold from £3,200 to £4,950 (the point at which FIS runs out for a 2-child family): £9.5 billion

Possible Sources of extra revenue:

1. Taxation of pension funds: £3 billion

- |    |  |                  |
|----|--|------------------|
| 2. | Abolition of married man's allowance for married couple where wife is working: | £1.5 billion     |
| 3. | Broadening the VAT base:   | £2.5 billion; or |
| 4. | 5 per cent VAT on all non-VAT items:   | £2.5 billion     |
| 5. | Extra tax on company cars:   | £0.2 billion     |
| 6. | Gas levy:  | £0.5 billion     |
| 7. | Selling oil leases:  | £0.1 billion     |
| 8. | Fiscal adjustment possible in any given year:                                  | £2 billion       |

Reductions in Benefit:

- |     |   |              |
|-----|---|--------------|
| 9.  | Cuts in housing benefit to target it more accurately: | £1 billion   |
| 10. | No revaluation of Child Benefit:                      | £0.2 billion |

Other PE Reductions:

- |     |                                |            |
|-----|--------------------------------|------------|
| 11. | Public expenditure reductions: | £2 billion |
|-----|--------------------------------|------------|

<u>TOTAL:</u>	<u>£13 BILLION</u>
---------------	--------------------

1. Taxation of Pension Funds

Pension funds currently enjoy tax relief in four forms:

- a. relief from Corporation Tax on contributions;
- b. relief from employee's income tax on contributions;
- c. exemption from income tax and CGT on income and gains on investments;
- d. tax exemption on lump sum payments on retirement.

a. and b. are reasonable reliefs. Wages are an offset for Corporation Tax, and pension payments are taxed, so taxing contributions would be double taxation. The tax exemption on the lump sum is popular and provides a tax incentive to save for retirement. The exemption on investment income and capital gains is the correct one to question.

2. Abolition of Married Man's Allowance for Married Man where Wife is Working

Raising the threshold to £3,200 for a single man would mean the married man with a working wife would be no worse off as a result of this change, and his wife would be better off, as her tax allowance would go up by £1,200. Only the very low-paid wife would suffer, and it could be objected that this change makes low-paid, part-time work either unpopular, or drives it into the black economy. It would be possible to devise ways of dealing with this at the cost of some revenue loss.

3. Broadening the VAT Base

The Government is pledged to switch from income to expenditure taxes. This means broadening the VAT base. It is not realistic to propose taxing all food items at 15 per cent. Therefore VAT could either be increased by taxing construction (£825 million), books and magazines - not newspapers (£170 million) and 40 per cent of presently untaxed food (£1,400 million), or by a lower-rate of 5 per cent on all currently untaxed items.

4. Extra Tax on Company Cars

The policy of putting up the tax on company cars to encourage rational private sector pay policies is a good one. The income benefit attributed to cars should be doubled to be realistic. Many companies now buy foreign cars, but the motor industry will still protest strongly about such changes.

It does not raise substantial revenue, but does force companies and employees to make more sensible decisions about the need for company motor cars and their worth.

5. Gas Levy

The gas levy on cheap Southern Sector gas does not capture much of the benefit for the Treasury - unlike Petroleum Revenue Tax on oil. It could be at least doubled, yet Southern gas would still be a bargain to BGC. This entails a transfer from BGC profits to the Exchequer: BGC have more than enough cash and profit at their disposal.

6. Oil Leases

New oil leases in the North Sea and Channel should be auctioned, not given away.



7. Housing Benefit

As people enjoy more tax relief from rising thresholds, Housing Benefit should be reduced for those near average earnings.

8. Child Benefit

There would be no need to increase this, in view of the massive increase in thresholds.

9. Other Public Spending Reductions

The reductions in Regional Aid, bus subsidy, urban programme and other areas under review should be brought up to a total of, say, £2 billion and used for lowering tax.

This list provides a substantial surplus (£3.5 billion) over the amount of money required to make the changes to allow for the natural haggling that would occur.

The purpose of the package would only be gained if it was done in one go. The married man would no longer pay tax on 30 per cent of average earnings: tax would start at 50 per cent of average earnings (the highest threshold for at least 30 years). The Government could state that the poverty trap had been cured, and that no-one would suffer marginal rates higher than 75 per cent as a result of removing the overlap between FIS and income tax. It would make it more worthwhile to work, begin the process of creating clear water between means-tested benefit levels and the payment of income tax, and would be seen as a major move in the right direction. It would be bold enough to go down well.

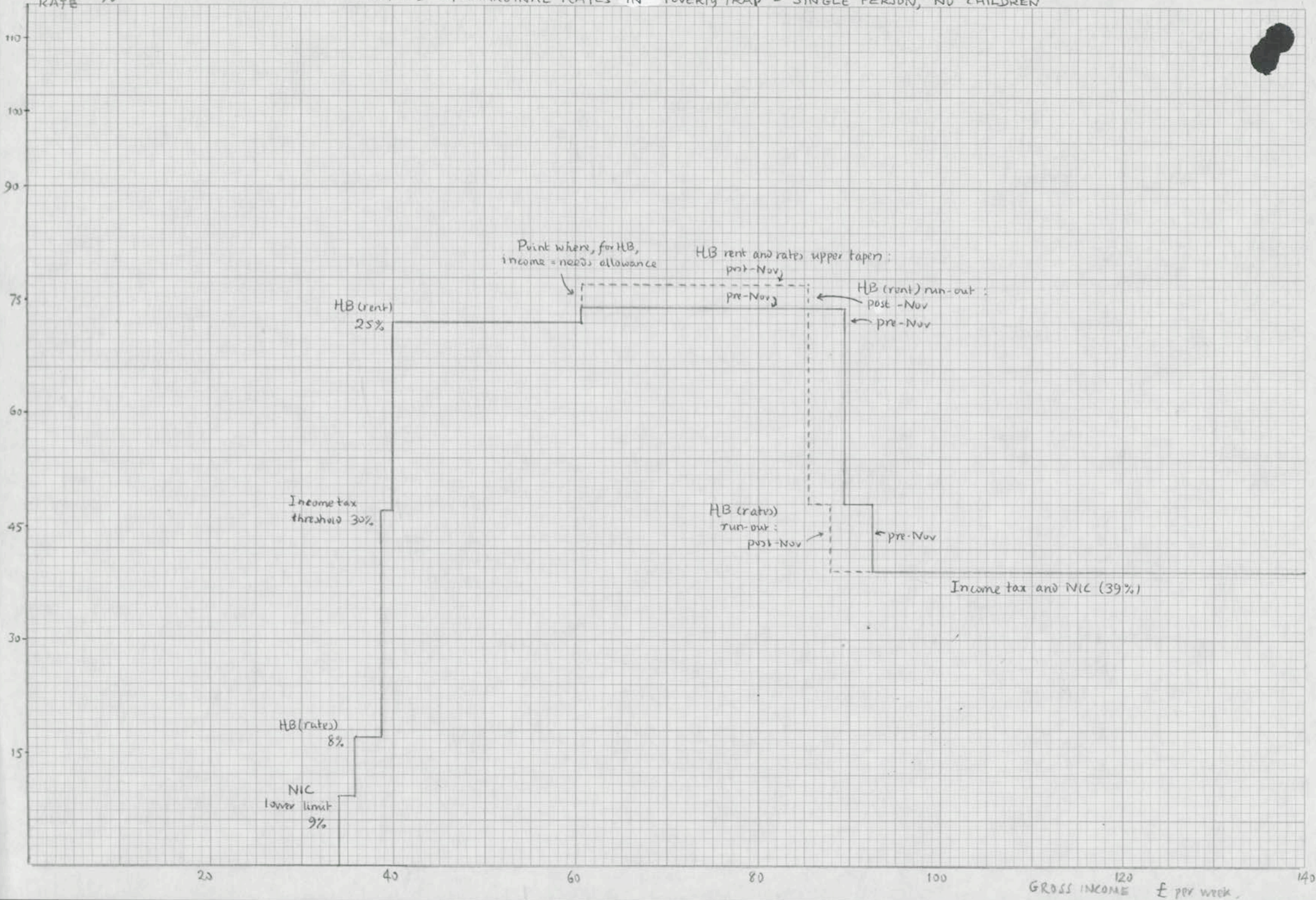
The reason everyone would feel much better off is because they would be. One-third of the savings could be paid for by taxing pension funds, a levy on future income. Those in unfunded schemes would be particular beneficiaries. Their contribution rates should be adjusted to even up the results a little.

Conclusion

There are political objections to each of the detailed measures proposed to find the £9.5 billion. But presented as a whole, as part of a concerted drive to higher thresholds and restoring the incentive to work, the overall package has considerable political attraction.

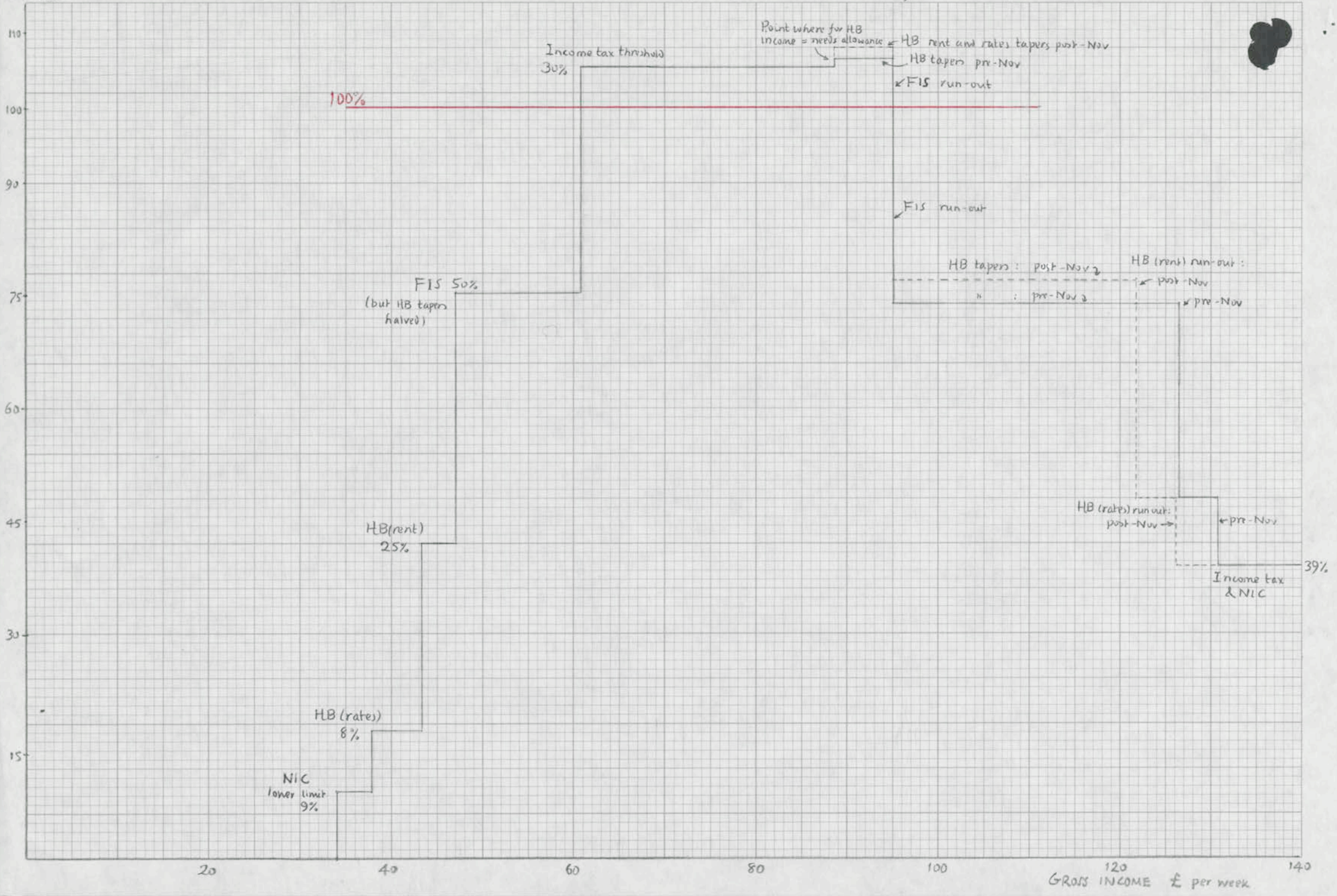
MARGINAL RATE %

PROFILE OF MARGINAL RATES IN POVERTY TRAP - SINGLE PERSON, NO CHILDREN



MARGINAL RATE %

PROFILE OF MARGINAL RATES IN POVERTY TRAP - MARRIED COUPLE, 2 CHILDREN





*Peretz* 9

10 DOWNING STREET

*From the Private Secretary*

23 May 1984

SEMINAR ON INDUSTRY AND EMPLOYMENT

In my letter of 19 May I promised circulation of a DTI paper on export promotion. The Secretary of State for Trade and Industry will be unable to attend the meeting and will not therefore be circulating his paper for discussion at this time.

I attach a further annex on measures to encourage wider share ownership which should be attached to the Policy Unit paper you have already received.

I am copying this letter to David Normington (Department of Employment), 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), David Young (Manpower Services Commission) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

David Peretz, Esq.,  
H.M. Treasury.

TAX AND OTHER LEGISLATION DESIGNED TO ENCOURAGE  
EMPLOYEE SHARE OWNERSHIP AND WIDER  
SHARE OWNERSHIP MORE GENERALLY

A. EMPLOYEE SHARE OWNERSHIP

(Annex A gives figures)

1. Profit Sharing

The reliefs available under the Finance Act 1978 for approved all-employee schemes were made more generous in 1980, 1982 and 1983. Annual limit on value of share allocation per employee is now £1250 or 10 per cent of salary (subject to a ceiling of £5000) compared to £500 in 1979. Minimum retention period for employee shareholdings to attract most favourable tax treatment is now 7 years compared to 10 years.

2. Share Option Reliefs

A new relief was introduced in 1980 for approved all-employee SAYE-linked share option schemes. In 1982 a 3-year instalment relief was provided to spread payment of income tax arising on share options exercised outside these approved schemes - typically by senior managers.

The 1984 Finance Bill:

- (a) increases the monthly savings limit under the SAYE-linked schemes from £50 to £100;
- (b) extends to 5 years the instalment relief for unapproved options granted before 6 April 1984; and
- (c) introduces from 6 April 1984 a new relief for share options granted under schemes satisfying various conditions to qualify for Inland Revenue approval, the usual income tax charge on exercise of the option being replaced by CGT liability on disposal of shares.

3. Employment Act 1982

Companies with over 250 employees required to make an annual statement about employee involvement arrangements, including financial participation.

## Interest Relief

Section 24 Finance Act 1983 provides relief for interest paid on loans taken out by employees to buy shares in their employee - controlled company as part of an employee buy-out. Other measures have been introduced to improve the relief available to people investing in their business: close companies (1982), co-operatives (1981) and partnerships (1981).

## B. MEASURES ENCOURAGING WIDER EQUITY INVESTMENT GENERALLY

### 5. Stamp Duty

The cut in the rate of stamp duty to 1 per cent, announced in the 1984 Budget from the 2 per cent rate imposed by the Labour Government in 1974 removes an important disincentive to investment in equities. The reduction in the rate of duty on share transfers should encourage direct share ownership by individuals as well as institutions.

### 6. Capital Taxation Generally

Capital taxation has been reduced to encourage investment and enterprise. Since 1979:

- (a) the CGT threshold has been increased from £1,000 to £5,600;
- (b) the CTT threshold stands at more than double its 1979 level, (£64,000 rather than £25,000) and the cumulation period has been cut to 10 years. This is of particular value to family firms;
- (c) the 1984 Budget cut the top rates of CTT from 75 per cent to 60 per cent (transfers on death) and from 50 per cent to 30 per cent (lifetime transfers). Again this helps family firms;
- (d) an indexation allowance has been introduced for CGT, and CTT rate-bands index-linked.

### 7. Investment Income Surcharge

The investment income surcharge (chargeable for 1983-84 at 15 per cent on an individual's investment income in excess of £7,100) has been abolished with effect from 1984-85. The surcharge was a factor in discouraging individuals from saving or investing directly, in particular in equities, and abolition therefore removes one element of discrimination against direct investment. A total of some 280,000 taxpayers will benefit, at a cost of about £360 million in a full year.

8. Abolition of Life Assurance Premium Relief (LAPR)

The 1984 Finance Bill proposes to abolish LAPR on life assurance contracts made after 13 March 1984 (and existing ones, if subsequently enhanced). This will reduce the fiscal distortions which favoured investment in life assurance and, together with other tax reform measures, should remove biases which encouraged individuals to invest in institutions rather than directly in equities.

9. Venture Capital Scheme

This was introduced in 1980 to encourage the flow of risk capital into small businesses. It enables investment companies, as well as individuals, to set losses from investments in unquoted shares against income instead of capital gains, thereby enhancing the value of the loss for tax purposes. Thus the relief offers reassurance to those who provide risk capital by sharing with them any loss on the failure of their investment.

10. Business Expansion Scheme

The BES was introduced in 1983 and greatly extended the 1981 Business Start-Up Scheme. It is an unprecedented measure, more closely targetted but also far more generous than, for example, the Loi Monory. It offers income tax relief at full marginal rates on up to £40,000 a year to encourage individual outsiders to invest in the full-risk ordinary shares of new and expanding unquoted trading companies.

11. Purchase of Own Shares

The 1982 Finance Act eased the tax charge when unquoted companies buy back their own shares to the benefit of their trade. This encourages more equity investment because owners and investors are often understandably concerned about finding a way out. Thus, for example small companies should be encouraged to set up employee share schemes since with a buy-back provision their shares are more readily marketable. The measure can also assist "management buy-outs" - the managers purchasing a small number of shares and the company buying back (and cancelling) the balance held by existing shareholders.

## TAKE-UP OF EMPLOYEE SHARE SCHEMES

1. By 30 April 1984 the total number of schemes qualifying for tax relief was 689 (397 Finance Act 1978 profit sharing and 292 Finance Act 1980 savings-related share option schemes). Compares with less than 30 approved schemes in 1979 when Government took office. No reliable figures for unapproved share option schemes but estimated there may be around 1000.

2. Number of approved schemes considerably understates number of companies since many schemes cover group of companies. No precise figures of total numbers but estimated that there are currently approaching 2000 companies participating in profit sharing schemes and over 45000 in SAYE-linked share option schemes; figures cannot be cumulated as some companies will participate in both but total must certainly be in excess of 5000.

3. Estimated that nearly  $\frac{1}{2}$  million employees have benefited under approved schemes since 1979 (ie have been allotted shares or given options to buy shares). A 1981 commercial survey estimated that companies employing total of over  $1\frac{1}{2}$  million employees had some form of scheme, approved or unapproved.

4. In money terms (on basis of estimated figures up to March 1983) employees have been allocated £195 worth of shares under profit sharing schemes and been granted options under SAYE-linked schemes to value of £350m. No figures available for unapproved schemes.





10 DOWNING STREET

From the Private Secretary

Prime Minister

Mr Tebbit will be attending his mother's funeral on Friday and will therefore miss the Employment Seminar. This is a disappointment but I do not think there is anything that can be done. There seems little point in arranging for a substitute.

Agree?

Yes not

AT

22/5



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

21 May 1984

John Redwood Esq  
10 Downing Street  
LONDON  
SW1

*Dear John*

**ENCOURAGING EMPLOYEE AND WIDER SHARE OWNERSHIP**

I enclose notes, prepared by Inland Revenue and the Treasury, on relevant measures adopted since 1979. Included at Annex C to the first note is some material on Mr Shore's intervention in the House on 2 May regarding disposals of employee shareholdings.

Some of the individual measures in the tax field are quite complicated and are set out only in summary form below. No doubt you will let me know if more detail would be helpful.

*Yours ever  
David*

D L C PERETZ  
Principal Private Secretary.

PRIVATISATIONS: MEASURES TO ENCOURAGE EMPLOYEES  
AND SMALL INVESTORS TO BUY SHARES

I. EMPLOYEE SHARE OWNERSHIP

1. 1983 Manifesto

The Manifesto stated that in privatising BT, Rolls Royce, BA etc "we will offer shares to all who work in them."

2. Extent of special arrangements for employees

Special arrangements have been made to encourage employee participation in all privatisations where a majority shareholding has been sold by stockmarket flotation.

3. Typical pattern of arrangements

Arrangements for employees typically include

- |   |   |                            |
|---|---|----------------------------|
| (a) An offer of free shares   | ) |                            |
| (b) An offer of matching shares given   | ) | shares placed in trust for |
| free in proportion to shares  | ) | at least 2 years- see      |
| purchased by the employee   | ) | Annex C.                   |
|   |   |                            |
| (c) A Special application form which gives the employee priority in the allocation of any shares that he may apply for in addition to the free and matching offers. |   |                            |

[CONFIDENTIAL - NOT FOR DISCLOSURE: Guidelines limiting the value of the elements of an offer were laid down in 1980 as £50 maximum free offer and overall cost of free and matching offers not to exceed an absolute maximum 5 per cent of Gross Proceeds. The Guidelines have been adhered to - allowing for a rise in the free offer broadly in line with inflation.]

4. Exceptions to the typical pattern

British Petroleum, where there was no free offer. The Cable and Wireless privatisation where matching shares were to be made available over a period as part of the companies employee profit sharing scheme. The British Telecom scheme, which will include a discount on shares applied for in addition to the free and matching offers.

The National Freight Corporation was an employee/management buyout.

5. Arrangements during subsequent sale of any residual Government shareholding

No free or matching shares have been provided by the Government but special application forms have been distributed giving priority to employees in allocation.

6. Details of arrangements in individual cases

A table is attached at annex A giving brief details of each relevant privatisation.

7. Bull points on success of arrangements for employees

Around 90 per cent of eligible employees have participated in the schemes to date with about 100,000 becoming shareholders in their own companies.

8. Mr Shore's charge that employee shareholdings are quickly sold

Attached at Annex C is a note, with a line to take, on erroneous remarks by Mr Shore on the occasion of the Secretary of State's 2 May statement on BT privatisation.

## II OTHER SMALL INVESTORS IN PRIVATISATIONS

9. The Financial Secretary replied to a question from Mr Tony Banks (Hansard 23 February 1984 W.A Col 590) in these terms:

"It is our policy to encourage participation by private individuals in individual share sales wherever this is appropriate".

10 Arrangements for small investors

Arrangements to encourage applications by small investors have included:

- (a) Wide advertisement of sale and broad distribution of prospectus.
- (b) Preferential treatment in allocation.
- (c) Opportunity to apply at the striking price in tender offers (thus helping inexperienced investors by removing the need for them to judge a price to bid).

(d) In one case (Britoil) free shares given in proportion to those held for three years after the sale.

[CONFIDENTIAL - NOT FOR DISCLOSURE: items (b) and (c) are essentially costless but item (d) represents a discount, delayed in time, on the price of shares. This discount may be offset by increased demand, but because of uncertainty over possible net cost there is no firm commitment to use this technique in the generality of sales.]

11. Details of arrangements in individual cases

A table is attached at annex B giving brief details of each relevant privatisation.

PE2

H M Treasury

May 1984

## EMPLOYEE SHARE SCHEMES IN PRIVATISATIONS

## 1. Summary of Key Figures

Company (Date of Sale)	Maximum Value <sup>*</sup> of Incentives Per Employee	Percentage <sup>+</sup> of workforce participating	Percentage <sup>+</sup> of Issued Share Capital Held
	£	£	£
BP (October 1979)	500	43	0.25
British Aerospace (February 1981)	499	74	3.6
Cable and Wireless (October 1981)	300	99	1.4
Amersham International (February 1982)	550	99	3.7
National Freight Company (February 1982)	£200 interest free loan for share purchase	23 <sup>♯</sup>	82.5
Britoil (November 1982)	458	72	0.1
Associated British Ports (February 1983)	311	91	4.3
British Telecom (announced arrangements)	470	N/A	N/A

Notes:

\* Maximum value of shares available free to an employee under both free and matching offers plus value of any other financial incentive.

<sup>+</sup> Initially following sale.

<sup>♯</sup> Percentage of employees and pensioners involved.

EMPLOYEE SHARE SCHEMES IN PRIVATISATIONS (cont)

2. Outline of Schemes\*

Company (Date of Sale)	Free <sup>+</sup> Offer	Matching <sup>♢</sup> Offer (Free: bought)	Other Financial Incentives
BP (October 1979)	None	Max £500 (1:1)	None
British Aerospace (February 1981)	£49.50	Max £450 (1:1)	None
Cable and Wireless (October 1981)	£50.00	£250 <sup>+</sup> (1:1)	None
Amersham International (February 1982)	£50.00	Max £500 (1:1)	None
National Freight Company (February 1982)	(Management/Employee Buyout)		£200 interest free loans
Britoil (November 1982)	£58.50	Max £400 (1:1)	None
Associated British Ports (February 1983)	£59.33	Max £252 (1:1)	None
British Telecom (announced arrangements)	£70.00	Max £200 (2:1)	10 per cent discount on up to £2000 of further shares

Notes:

- \* All schemes include preferential application forms for further shares which give employees priority in allocation.
- + Value of shares at time of privatisation which HMG was to make available over the life of the Company's profit sharing scheme.
- + At offer price.
- ♢ By HMG or company Trust.

## EMPLOYEE SHARE SCHEMES IN PRIVATISATIONS (cont)

## 3. Take up of Offers (per cent eligible employees)

Company (Date of Sale)	Free Offer	Matching Offer	Preferential Application Forms
BP (October 1979)	N/A	50	43
British Aerospace* (February 1981)	89	41	1.6
Cable and Wireless* (October 1981)	99	99	25
Amersham International* (February 1982)	99	80	40
National Freight Company (February 1982)	(23 per cent of employees and pensioners participated in the Management Employee Buyout) <sup>+</sup>		
Britoil (November 1982)	92	62	not available
Associated British Ports (February 1983)	90	38	2.9
British Telecom (announced arrangements)	N/A	N/A	N/A

Notes:

\* Average employee holding estimated as: BAe £161, Cable and Wireless £585, Amersham International £1,680.

+ Directors, Employees, Employees, Immediate families, Pensioners formerly employed by the company, their wives and or widows/widowers were all eligible.



## EMPLOYEE SHARE SCHEMES IN PRIVATISATIONS (cont)

## 4. Number and Value of Shares Involved

Company (Date of Sale)	Number of Shares Applied For	Number of Shares Allocated	Per cent Share* Capital Held
BP (October 1979)	Not available	Not available	0.25
British Aerospace (February 1981)	10,612,008	7,072,300	3.6
Cable and Wireless (October 1981)	3,785,833	3,785,833	1.4
Amersham International (February 1982)	2,014,140	1,828,290	3.7
National Freight Company (February 1982)	6,187,500	6,187,500	82.5
Britoil (November 1982)	580,610	580,610	0.1
Associated British Ports (February 1983)	1,856,875	1,736,965	4.3
British Telecom (announced arrangements)	N/A	N/A	N/A

Notes:

\* Issued share capital held by employees immediately following sale.

## ARRANGEMENTS FOR SMALL INVESTORS IN PRIVATISATIONS

Company (Date of Issue)	Distribution* of Prospectus	Preference in Allocation	Any other measures
BP (October 1979)	Post Offices, Shareholders Clearing Banks, Co-op Bank, TSB's	Yes	-
British Aerospace (February 1981)	Main branches Lloyds, Clydesdale Bank, Bank of Ireland	Yes	-
Cable and Wireless (October 1981)	Main branches Natwest, Ulster Bank, Hong Kong	Yes	-
Amersham International (February 1982)	Regional Stock Exchanges	Yes	-
Britoil (November 1982)	Post Offices, Clearing Banks, TSB's	Offer by Tender	Striking price applications 1 for 10 small shareholder bonus (after 3 years)
Associated British Ports (February 1983)	Lloyds branches, Bank of Ireland	No	-
BP (September 1983) <sup>+</sup>	Main branches of several UK Banks, Main Post Offices	Offer by Tender	Striking price Applications
Cable and Wireless (December 1983) <sup>+</sup>	Main branches of several UK Banks Main Post Offices	Offer by Tender	Striking price Application
Associated British Ports (April 1984) <sup>+</sup>	All branches of Lloyds Bank, Bank of Ireland	Offer by Tender	Striking price Applications

Notes:

\* Other than to Bank of England, Merchant Banks, Underwriters, Brokers and Receiving Banks.

+ Sales of residual holdings.

MR SHORE'S STATEMENT (OR 2 MAY COL 354) THAT EMPLOYEES SELL SHARES QUICKLY

"... Previous attempts to make privatisation popular by dispersing shares to existing employees have resulted in about 84 per cent of all such allocations being disposed of by the recipients within one week of becoming the owners".

1. Background

[CONFIDENTIAL: NOT FOR DISCLOSURE: Free and matching shares allocated to employees in privatisations are placed in trust for a minimum of two years and may not be sold or pledged as security during that period except in case of injury, disability, redundancy or retirement. Beyond this there is a further period up to seven years from allocation when the shares may be traded at the cost of losing some or all of their tax exemption. Although we do not have figures, since a large proportion are in trust, it is highly unlikely that Mr Shore's statement is true. He is almost certainly confusing employee shareholders with the generality of small investors. There is some evidence of falls of this magnitude in the holdings of other small investors. (For example, in the case of British Aerospace, excluding employees, shareholders holding less than 1000 shares fell by 84 per cent in just under one year. This is probably the source of Mr Shore's figure. There was a similar fall in the case of the 1981 Cable and Wireless sale). How much of this is due to professional stock market speculators ('staggering' the offer) and how much to ordinary investors taking profits or otherwise adjusting their portfolios after allocation we cannot tell. The loyalty bonus in the case of Britoil was designed to combat the professional speculator. Initial evidence shows small shareholdings holding up well - but then Britoil was heavily under-subscribed with a poor aftermarket. In general, widespread selling immediately after an offer is only likely to be a problem in fixed price offers which prove to be underpriced.]

Suggested line to take

(a) 84 per cent Fall in Employee Shareholdings?

"It is the Government's intention to encourage long term participation by employees in their company and indeed free shares are usually held in trust for their owners for a minimum period. I am therefore surprised that the hon gentleman should feel able to state that 84 per cent of the employees holding are sold within a week. I should like to see his evidence."

(b) 84 per cent Fall in Small Investors Holdings?

"The fact that large numbers of small investors have been involved in privatisations to date is a tribute to the Government's policy of encouraging their applications. It is not unusual for there to be a high turnover in shares in the period immediately following a flotation but I have seen no evidence to suggest that recent privatisations have particularly suffered from this."

SECRET

18 May 1984  
Policy Unit

PRIME MINISTER

JOBS SEMINAR

(1A)

Tom King's paper is a good one. However, it contains one concealed danger. If there is general acclaim at the meeting for a series of contingency measures, this could become the beginning of a clamour for a U-turn. Hidden contingency plans do not stay hidden for ever, and leaks would be damaging. People would ask why the Government thinks its policies are going to fail; and, if there are measures that are appropriate in 2 years' time, why aren't they being taken now?

Those who want to see increased public works are arguing the case for hidden reflation. This will not work. More Government borrowing will mean higher interest rates, and higher interest rates attack those parts of the economy that offer most jobs most quickly. If you increase capital spending by £1,000 million with a programme of civil engineering, you will probably raise interest rates sufficiently to destroy as many jobs in housing and other interest rate-sensitive areas of the market as you have created.

The main message is that money is already being spent on necessary infrastructure. Projects should be undertaken only if they are worthwhile. We should not panic about renewal as opposed to improvement and new development. The sewers of this country are not all about to fall in, and do not all need replacing by digging up the high streets. We do need some new roads, and the Department of Transport is moving ahead to complete the motorway network and bypasses. We do need a bigger telecommunications system, and BT is spending rapidly to achieve this end. It is, in any case, impossible to produce large-scale infrastructure projects quickly for an election. Planning constraints make such projects slow.

FOCUSSING THE DEBATE

The debate should focus on making present policies work, and on new measures that are needed. There should be no additional measures sitting in the cupboard.

Options include:

1. Making the labour market work better.
  - i. Passport for a job offers a way forward (Main Paper and Annex 1, Paragraph A.8). Lord Cockfield's original scheme has been modified in order to overcome many of

LASABH

SECRET

① Removing obstacles to growth

Training allowance

Fundamental  
agreements

② Wages Councils

Employment Protection Act.

③ Management Training Council =

Durban, London

4-

④ Enterprise Allowance.

600-1000

1 yr.

2 subs

long term unemployed.

large-scale redundancy

Plows - no hope

Copy - Contract

the obstacles that it encountered last autumn. It is now voluntary rather than compulsory - if people can earn more by going through the normal tax channels, they should do so.

Opening the Scheme to anyone below £45 a week removes the need for an age limit. Anyone on low earnings should be outside the tax system. By the time passport is implemented, there shouldn't be any lost revenue because thresholds will be above £45 a week for a single person.

The passport system takes away all the hassle of filling in the tax forms. It simplifies life for the employer and the employee. The only subsidy element is the National Insurance credit. It can be presented as a bold measure to help individuals and small companies take on the workers they need, whilst representing a major simplification in the form-filling procedures they have to undertake. At the same time, it will help bring into the white economy chunks of the black economy.

- ii. Abolition of Wages Councils (Annex 1, Paragraph A.5). If there is ever going to be a time for Ministers to take their courage in both hands and abolish Wages Councils, this is it. Wages Councils are either ineffective or an obstacle to employment. They cover those sectors of the economy (retail, hotels and catering) that are very likely to produce new jobs.
- iii. Reform of the tax and benefit system (Annex 1, Paragraph A.13). The Seminar could have a preliminary discussion both on the policy and on the importance of raising tax thresholds. It could also discuss the related question of concentrating means-tested benefits on the lowest incomes in the community, to reduce numbers in the poverty and unemployment traps.
- iv. Modifying Employment Protection Legislation. (Annex 1, Paragraph A.14). Although this legislation has been largely neutered by amendments, it is not understood to have been neutered. The Seminar could discuss whether the political trouble of complete repeal is necessary to change people's attitudes, or whether there are other ways of persuading employers that things have changed.

2. Quality of People (Annex 1, Section C)

The programme of action in schools described in paragraphs C3 and C4 is excellent. But it will take 3 or 4 years to have any effect - too long to make any substantial

difference before the next Election. Shouldn't there be some immediate action to raise standards, so that employers find young people worth employing? Shouldn't the Seminar consider, for example, the introduction of a new Use of English examination - a simplified form of the present one - to be taken by all 16-year-old school-leavers? The aim would be to determine whether school-leavers can read and write properly, and to give employers some standard of achievement in potential recruits. This could be introduced in advance of Graded Tests.

3. Mobility (Annex 1, Section D)

The main constraints on mobility are those imposed by the housing market. Action is needed to rejuvenate the private rented sector, and the work currently under way needs to be given an additional impetus from the Seminar. Only when unemployed people have a chance of moving to a new area, and finding reasonable accommodation at a realistic price, will they do so.

SUBSIDIARY ISSUES

There are three other relevant issues not covered in Tom King's Paper:

i. Removing administrative burdens and deregulation.

Robin Ibbs has recently reminded Ministers just how complex it is setting up a small business. What we now need is action to do something about it. Couldn't the DTI be given the task of holding talks with Treasury, DHSS, DoE and other interested Departments, with a view to proposing the abolition of several of the silliest regulatory impositions? For example, do local authorities really have to license car-hire firms and hairdressers? Previous seminars have considered planning restrictions; they are still stopping jobs. But they are, of course, politically sensitive.

Some progress is being made on the general burden of regulation, thanks to Nicholas Ridley's bus policy and the examination of vehicle licensing. Other things could be undertaken. For example, in the forthcoming reform of bankruptcy law, DTI could examine the role of the 4,000 people employed at DTI in regulating companies and administering insolvency. The White Paper on Insolvency law suggested a dirigiste route that could discourage enterprise. The final proposals should not make risk-taking too difficult.



ii. Making Job Subsidy more Effective

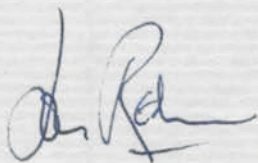
There is one contentious matter which could also be raised. The work we did, which we showed to you and then to Tom King, on the costs of job subsidy made it quite clear that subsidising people was cheaper and more effective than subsidising companies and big projects. I attach as an Annex to this paper the summary of our work. The Government would achieve more by cutting back on regional aid and expensive Airbus-type projects, and using those savings on subsidies to price people into jobs.

iii. Cleaning up the Black Economy

Since participating in Tom King's preparatory work, the Policy Unit has given more thought to the subject, and has come up with another idea. Couldn't we give an amnesty to all those who are currently fiddling either or both the tax and the benefit system, in an effort to tempt them back into honesty? This could be combined with:

- (a) a major increase in tax thresholds - so that many more people could come back into the legal economy without needing to pay tax anyway;
- (b) more fighting talk on the way in which the police and the tax and benefits inspectors are going to clamp down on tax and benefit fraud - perhaps coupled with more resources in those areas; and
- (c) the benefit reviews to see if there are ways in which people could both preserve some benefit and, at the same time, enter into part-time employment coming off the unemployed register.

Many people develop a guilt complex about the tax and benefits frauds they are perpetuating; but because of the enormous backlog they would have to pay, they continue their moonlighting existence. An amnesty would tackle this.



JOHN REDWOOD



10 DOWNING STREET

From the Private Secretary

Prime Minister

You have already seen, and approved the circulation of, the Policy Unit note on Wider Ownership.

Enclosed are Tom King's two papers, which have also been circulated, plus a Policy Unit Commentary.

Still to come is a paper on export promotion from DTI

AT

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bc: John Redwood

7

10 DOWNING STREET

From the Private Secretary

18 May 1984

Dear David,

SEMINAR ON INDUSTRY AND EMPLOYMENT

My letter of 9 May set out the agenda for the 25 May meeting and promised the circulation of a number of papers. I attach a copy of the two papers produced by the Secretary of State for Employment and a copy of the No. 10 Policy Unit note on wider ownership. Attached to the latter are factual annexes prepared by DTI on employee shareholdings in privatisation issues; steps to promote wider share ownership; and share option schemes. The paper on export promotion will be circulated next week.

I would be grateful if you could ensure that these papers are retained within Private Offices. If Ministers wish to seek briefing on them the papers should be shown only to those who need to see them, without reference to the meeting at which the papers are to be discussed.

I am sending copies of this letter to David Normington (Department of Employment), 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), David Young (Manpower Services Commission) and Richard Hatfield (Cabinet Office).

Yours sincerely  
Andrew Turnbull

Andrew Turnbull

David Peretz, Esq.,  
H.M. Treasury.

## POLICIES AFFECTING THE LABOUR MARKET AND EMPLOYMENT

Memorandum by the Secretary of State for Employment

Our strategy for economic success is popularly expected to reduce unemployment. We must hold to that strategy as giving us the only genuine prospects of higher employment. Its pursuit is essential to stimulate the efficient operation of both the product and labour markets. My personal belief is that we stand a good chance of seeing unemployment fall over the next three years to the lower end of the range outlined in my accompanying paper, and of course we shall need by then to see a significant declining trend in the level of unemployment.

2 Against this background I believe:

(i) we must take an early initiative to win the public argument about increasing jobs, extending enterprise and seeking opportunities for growth wherever they may be found. This requires a concerted campaign, fed both by our achievements so far and by any new moves to remove labour market constraints and encourage enterprise. I and my Ministerial colleagues in the Department of Employment will certainly seek to play a full part in this but clearly the role of other Ministers, particularly the Chancellor and the Secretary of State for Trade and Industry and their colleagues is vital.

(ii) in addition, we must consider what steps we might take in line with our main economic strategy in perhaps 18 months from now if we judged further action was necessary.

AN EARLY INITIATIVE

3 Inflexible labour practices and loss of management control have made the labour market inefficient and been a significant impediment to the creation of jobs. Since 1979 we have done a great deal to improve the position. Annex 2 lists the action already taken to establish more realistic wages, to provide a more balanced framework of industrial relations law, to improve the quantity and quality of skills, to remove constraints on labour mobility and to promote enterprise through self-employment and encourage greater flexibility in working patterns generally. These measures often take time to show, but the signs are growing eg skill differentials are widening, the pay of young workers is declining relatively to that of adults and restrictive working practices are being removed.

4 What more can we do? The first need is not new measures but to make clearer to people the freedom that now exists for them to generate jobs whether for themselves or for others. The Government can and must continue to remove constraints on the operation of the labour market. The creation of employment then depends on the response of those working within it, notably employers. We must ensure that they do know how much we have already done to remove the burdens and constraints on the creation of jobs. And we need to put this in the context of a general shift towards enterprise and a capital owning democracy in which people are encouraged to employ others. This calls for a concerted public campaign conducted by all of us.

5 Secondly, I also believe that we can and should do more within our economic strategy:

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(a) to remove any further constraints that we can on the labour market to bring supply and demand for labour into better balance; and

(b) to assist the two groups of people who will continue over the next three years to be especially badly hit by unemployment - the young and the long-term unemployed.

6 Annex 1 lists a range of possibilities of further action to meet these requirements. We must decide which of these to pursue and who should do them and we need to fit their announcement as each comes forward into the public campaign I have in mind.

7 Two of them would serve particularly well to give fresh focus to the message of that campaign:

(i) one would be Lord Cockfield's "passport for a job" idea adapted to a voluntary basis (paragraphs A.8-10 of Annex 1). In essence this would enable smaller employers to employ young people at a modest wage, free of tax and NI, and exempt from the Employment Protection Acts. Such a scheme would dramatically remove the administrative burdens from employers and could unlock a whole raft of extra jobs from small employers who are put off by all the paperwork and regulations. If this were to happen it would be a most effective example of the link between deregulation and job creation.

Of course, there are a host of problems, both of policy and operation, that need to be thought through to see whether it really could work and main legislation would be needed. But I hope colleagues will agree that we should really see whether we can overcome the problems and mount some version of the scheme, possibly limited in the first instance to small businesses, where the employment impact is likely to be greatest, and for young people;

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(ii) we could also build on the success of the Enterprise Allowance Scheme introduced only last year. This helps unemployed people set up in business on their own account by paying them an allowance of £40 a week for a year in place of benefit. It is not only highly popular, but a first class illustration of our philosophy of encouraging enterprise and self-help in a capital owning democracy. We could continue it on the basis of opening it to all comers instead of rationing applications and we could make it easier for people to qualify (paragraph E.8 of Annex 1).

8 There would be a cost to these moves - though in the case of the passport scheme it is a loss of revenue rather than public expenditure. While I cannot yet be certain, I believe there is a good chance that I could contain the cost, on the provisional estimates, within existing PES provision, notably from savings from the Youth Training Scheme.

9 If we found we could make either or preferably both of these moves, we could use their announcement very effectively within the publicity campaign to get over our message to employers and the public generally on our positive approach to the generation of more jobs through freer operation of the labour market.

**FURTHER ACTION**

10 Separately from that initiative it must be prudent to consider what we might do if no clear sign of a declining trend in unemployment were to appear by early 1986, recognising that it takes time for any action to have effect.

SECRET AND PERSONAL

SECRET AND PERSONAL

11 It is plainly crucial that any such action then should not appear to run counter to our economic strategy and is generally accepted as tackling priority problems. It would also be necessary to select measures which are labour intensive and sure in their employment effect and preferably inclined towards those who are then being most hardly hit. It seems to me that this requires us to turn attention to two particular areas of potential action:

(i) the extent to which existing special employment programmes can be readily increased and the time lag involved. Possibilities are the Community Programme (in general or for the very long-term unemployed - paragraph C.8-9 of Annex 1) and a temporary resuscitation of the Job Release Scheme by moving the age down again from 64. Both of these schemes could be expanded to have a relatively quick and substantial impact on unemployment (though not on employment), possibly to the extent of assisting another 150-200,000 unemployed people;

(ii) the extent to which, with adequate preparation, we could quickly replace those public expenditure programmes and projects which are less labour intensive with those which would raise employment quickly, and what the cost effect could be of supplementing them further.

12 These approaches would have expenditure effects which would have to be considered within the public expenditure programmes generally and in accordance with the economic strategy.

**CONCLUSION**

13 I invite colleagues' views of the above assessment and suggestions.

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ANNEX 1

## POLICIES AFFECTING THE LABOUR MARKET AND EMPLOYMENT

## POSSIBILITIES FOR FURTHER ACTION

1. Jobs depend not just on the development of products and services for sale, but on the responsiveness of the labour market to the needs of the product market. Over the years inflexibilities in the labour market external to companies and in their internal labour markets have damaged competitive efficiency, enterprise and job creation. It has accordingly been an important aim of Government policy since 1979 to free the labour market from restrictions and improve its operation in the interests of employment.

2. This Annex sets out possibilities for further action (including some already in train or under consideration) to stimulate employment though facilitating the working of the labour market. Annex 2 records relevant action already taken by the Government since 1979. The material in both Annexes is grouped into the following five sections, though each contributes in complementary ways towards the basic objective:

Section A: Labour costs - wage and non-wage

Section B: Labour relations - the legal framework, employee involvement

Section C: Labour quality - vocational education and training

Section D: Labour mobility - placement services, housing and pension policies, regional policy

Section E: Patterns of work - changes in the length of working life and working week, the balance between full-time and part-time work, self employment.

SECTION A: LABOUR COSTS

A.1 The links between pay, unit labour costs and jobs, in both private and public employment, are now much more widely recognised and understood. Levels of pay and conditions of employment have to take account of all the various claims on the employer's resources. Not only must they enable employers to recruit and retain employees, reward effort and skill and promote productivity: they will significantly affect current competitiveness and profitability and therefore the course of investment which will influence future employment.

A.2 It is necessary to produce conditions in which pay reflects these realities. This can be done by explanation, aided by example-setting in the public sector; by removing statutory or contractual limits on the setting of wages in relation to the employer's circumstances; by removing and discouraging arrangements which depend on comparability; by introducing and stimulating flexibility in payments reflecting skill and experience; and by removing or minimising fiscal and statutory burdens on employers which discourage employment.

A.3 Action already taken to bring about these changes and induce greater flexibility in pay determination is set out in Annex 2. There are several options for further action to deal both with wages and with non-wage costs or employment conditions.

(i) Wage issues

(a) Central Government employees

A.4 For the negotiated groups of government employees the scope for giving further weight to market factors is limited. First, as the level of pay settlements has fallen, the room for manoeuvre on differentials, whether for skill, age or location, has become much smaller. Secondly, the unions have been consistently opposed to widening skill differentials, and this resistance can be expected to increase. For the non-negotiated groups, progress depends

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on the extent to which the Review Bodies are willing to give greater weight to market factors than they have in the past; and, where they do not, on the Government's willingness to take the politically difficult step of altering the Review Bodies' recommendations.

(b) Removal of Government constraints

A.5 Ministers have decided not to abolish Agricultural Wages Boards but will shortly be re-considering the future of Wages Councils, although the obligation to observe ILO Conventions prevents any radical change before 1986. The Attorney-General has advised that current ILO obligations preclude not only complete abolition, but also the exclusion of substantial categories such as young people, part-time workers or small firms. E Committee have previously considered a number of less radical options - such as imposing new statutory duties on the Councils - but so far have concluded that none would be effective or worthwhile.

(c) Lowering the relative pay of the young

A.6 The Young Workers Scheme could be developed to have a greater effect. One possibility would be to extend the scheme to young people beyond age 17 eg to under 20 year olds, among whom the level of unemployment is particularly high. With the level of subsidy remaining at £15 a week for up to 12 months, provisional estimates indicate that extending the scheme to young people under 20 at the current earnings limit levels (£50 a week) might mean an additional take up of up to 60,000 in 1985/86 (take up for 17 year olds for that year is estimated at about 50,000). Additional gross public expenditure would be some £13 million (current PES provision for YWS in 1985/86 is £45 million). If the scheme were limited to employees of small firms (say under 10 employees) this should improve its cost effectiveness, but would reduce the increase in take up and net additional jobs.

A.7 It would perhaps be more sensible as an alternative to maintaining current earnings limits to have an age related wage criterion (eg less than £50 per week for those under 17, less than £60 for those under 18, less than

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£70 for those under 19). This would have a number of effects: it would retain the relative depressing effect on wages and increase take up, but might also have a counterbalancing detrimental effect on employment opportunities for adults.

A.8 A more radical option would be to restyle or replace the Young Workers Scheme with a new scheme along the lines of Lord Cockfield's suggested "Passport for a Job". Under such a scheme employers would be free to offer, and young people under age 18 would be free to refuse or accept, jobs offering a cash wage of up to say £45 a week without any obligation on either party to pay income tax or national insurance and outwith the scope of all (or most) statutory employment protections. While many of these conditions may already apply to young people (for example NI, contributions are only payable above a wage level of £34, and in practice few young people fall within scope of many employment protection provisions), the object would be to encourage more employers to take on young workers by removing all such obligations.

A.9 The inducement to the employer would lie in the removal or reduction of the burden of paper work entailed in taking on any new employee (for example, by removing the requirement to conform to PAYE procedures even though the employee's wages are below the tax threshold). Young people would benefit from improved job prospects no PAYE and NI contribution (provided contributory benefit cover was maintained by granting NI credit). From the Government's point of view there would be a revenue loss but no public expenditure commitment. NI contribution exemption for employers and employees could cost £15 million a year and 'tax lost' could be around 21 million a year. Deadweight (ie those who would have been employed even within the exemptions) could be considerable; if experience resembled the Young Workers Scheme, deadweight might be as high as 80 per cent.

A.10 The Scheme could of course be extended beyond 16 and 17 year olds to under 20 year olds. This would increase the revenue loss and possibly the complexity of the scheme as it moves into the area of adult wage rates. If on

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the other hand the scheme were limited to small employers, deadweight and revenue losses could both be less.

A.11 Such a scheme would need main legislation. Though simple in concept, considerable policy and operational problems would have to be resolved before it could be confirmed feasible eg on tax and national insurance (where exemption from tax and NI contributions would break the principle that earnings create a liability), movement in and out of the scheme (possibly creating a wage trap), and the implications for the Youth Training Scheme. Preliminary exploration of the practicalities is in hand.

(d) The effect of the tax and benefit systems

A.12 The impact of PAYE on casual and part-time employment is worth examining. If the level at which PAYE impacts on such employment could be raised or casual workers given limited exemptions from its operation, there could be advantage in removing some of this activity from the black economy and in promoting more such employment. There will be problems of definition; some cost from exempting existing jobs in the "white economy"; and opportunities for people to take several part-time jobs and avoid tax on them all.

A.13 The interrelationships between the tax and benefit systems have been intensively scrutinised; in particular, in 1982 the CPRS made a number of recommendations to overcome the detrimental effects on employment. These are worth re-examining and could be placed on the agenda of the Central Unit's work for the DHSS reviews of social security. They include:-

- (i) overcoming effects on the wage floor by uprating supplementary benefit in line with the lower of increases in prices or earnings; and finding new way of subsidising low income families that would be more effective than FIS and less expensive than increasing child benefit or tax thresholds.

- (ii) reducing the lack of incentive to take up work by changing benefit rules to require acceptance of any job that paid no less than benefit; or reintroducing a 'wage stop' on benefit.
- (iii) encouraging take up of part-time work by allowing more earnings to be retained without equivalent benefit loss.

Making a major inroad into the poverty and unemployment traps will, however, be extremely costly and, as the recent Green Paper showed, will depend crucially on maintaining firm control of public expenditure over a number of years.

(ii) Non-wage issues and employment conditions

A.14 Turning to non-wage issues and employment conditions, one option to be considered is to repeal the statutory protections against unfair dismissal and other lesser protections (eg action short of dismissal). This would be to return to the pre-1971 position although statutory protections would need to be retained for such dismissals as those from closed shops or for union membership, on the grounds of sex or race and, under an EC Directive, for employees the ownership of whose undertaking is transferred.

A.15 Repeal apart, a thorough review of the statutory provisions undertaken this year has identified the following main options:

- (a) extend the qualifying period to 2 years for all employments (reducing the number of complaints by about 25%) or to 3 years (reducing complaints by about 43%);
- (b) exclude all very small employments (a cut-off at 5 employees would remove about 1.4 million employees from scope; a cut-off at 10 employees about 3 million);
- (c) exclude "new" businesses on a variety of possible formulations;

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- (d) a voluntary option of arbitration where the employer and the claimant agree to accept the outcome as an alternative to a settlement by a tribunal, subject to a statutory ceiling on the amount of compensation which could be awarded;
- (e) make arbitration compulsory for "minor" cases, say complaints made in the first 1 to 2 years following qualification.

A.16 The review also identified a number of administrative and other possible improvements to the industrial tribunal system, mainly as an alternative to more radical action, on which work is already in hand:-

- (a) increasing the efficiency and cost-effectiveness of tribunals;
- (b) ending the requirement on tribunals to provide detailed written decisions in all cases;
- (c) exploring the possible benefits of revising the Code of Practice on Disciplinary Practices and Procedures in Employment;
- (d) discouraging the growing use of solicitors at the conciliation stage;
- (e) more tentatively, exploring ways of reducing the number of appeals to the Employment Appeal Tribunal.

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SECTION B: LABOUR RELATIONS

B1. A more balanced framework of industrial relations law assists realism in collective bargaining and facilitates the management of change and the pursuit of efficiency. At the same time labour relations and efficiency within companies can be improved through action by employers to involve employees more closely in decisions that affect them at their place of work. Better operation of the labour market requires action on both aspects of labour relations.

INDUSTRIAL RELATIONS LEGISLATIVE FRAMEWORK

B2. The action already taken is set out in Annex 2. Possibilities for further action under consideration are:

- (a) The ways in which the maintenance of essential services can be better assured through primary legislation;
- (b) Alternative proposals have been developed which would enable employers to lay-off without pay employees whose work was affected to any extent by industrial action. The first would relieve employers of their contractual and statutory obligations when a major dispute in a key industry had widespread effect. The second approach would provide the same reliefs if selective action was taken by only some employees of the same employer.
- (c) The possibility of deeming all substantive and procedure agreements legally enforceable (or attaching trade union immunity to their observance), if employer opinion generally came to be supportive of such steps, if it was possible to be confident that employers would use the remedies the law would provide, and if negotiated agreements were improved to the point that they would bear the weight of legal interpretation.



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EMPLOYEE INVOLVEMENT

B3. Action already taken is reported in Annex 2 (paragraph B3). The prime requirement is to allow practice to develop according to the needs and circumstances of the individual enterprise and to avoid imposition of a rigid and predetermined approach from outside. We shall therefore continue our twin aims of resisting the draft 'Vredeling' and Fifth Directives of the EC while supporting and encouraging good practice, mainly through Ministerial speeches.

B4. Employer organisations are also active. In the last year the Industrial Participation Association and the Institute of Personnel Management have issued an authoritative Code of Practice and together with the CBI are holding this year numerous involvement seminars and conferences up and down the country. It will be open to us to review the position at some future date in the light of company reports under Section 1 of the 1982 Employment Act.

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SECTION C: LABOUR QUALITY

C.1 For the labour market to work properly those within it must have the right skills and/or the capacity to attain them. Over the years those emerging from our education system have too often been less broadly educated than their counterparts abroad; too little attention and status has been given to technical education and to education of the least able young people. Within the electronics industry shortages of certain skills are already appearing, leading to the risk of sharp upward pay movement. More generally, the low number of technicians and craftsmen, the low percentage of managers with formal qualifications and of workers with any vocational qualifications at all, together with the restrictive practices surrounding the apprenticeship system, have all contributed to a relatively poor economic performance.

C.2 Details of action already taken to improve the relevance of education and training to industrial and commercial requirements are in Annex 2. Further possibilities are:

(a) Educational initiatives

C.3 The action programme within the schools sector will, if successful, lead to a series of connected initiatives over the next few years. In collaboration with other Government Departments it will be aimed as far as possible at those points within the decentralised education system which have a direct influence on the curriculum and examinations. In particular:

- (i) Initial teacher training will be reformed to improve the selection of trainees and to make training courses academically more rigorous, more closely related to the practical work of teaching in the schools and taking more account of pupils' employment opportunities in industry and commerce.
- (ii) As the objectives of the 5-16 curriculum and for each main subject in it come to be defined, local education authorities will be

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asked to report on how the curriculum in their schools measures up to the defined objectives and to take steps to secure that it does.

- (iii) The objectives for the school curriculum will emphasise practical skills and applications for pupils of all ages and ability levels, building on and complementing what the Technical and Vocational Education Initiative (TVEI) is doing for a selection of 14-18 year olds.
- (iv) Among the objectives for the school curriculum is the introduction of pupils to the nature and origins of our society, including the economic facts of life.
- (v) The 16+ examinations will be changed so that grades are awarded only if candidates have demonstrated required levels of understanding and competence - broadly defined, rather than mainly an ability to recall facts in an orderly fashion.
- (vi) All school leavers will be offered a record of their achievements at school, including success in activities other than examinations which throw light on their personal qualities.
- (vii) The proposed legislation to give parents elected by their fellow parents control of most school governing bodies with important responsibilities for the affairs of the school will enable parents to contribute to the objective, which they regard as crucial, of better preparing pupils for jobs.

C.4 If this ambitious action programme for school education were to be extended, one further change worth examining to improve the quality of the labour force would be greatly to broaden the sixth-form studies of every student, by replacing the A level examinations with an examination more on the lines of the German Abitur. This would require all those aspiring to post-16 qualifications and higher education to continue to study to age 18 a much

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wider range of subjects than is now common, including mathematics and science, thus strengthening the technological base of the labour force as well as its competence in other areas.

C.5 In Higher and Further Education the need is probably less for radical innovations, but for more and better of what we now have. In this situation a number of possibilities exist which are already receiving attention.

- (i) Developing comprehensive part-time education and training provision for the 16-18 age group, by extension of the Youth Training Scheme or otherwise.
  - (ii) The further development of activity like the DES Professional, Industrial and Commercial Updating Programme.
  - (iii) Extension of the Information Technology in Higher Education initiative.
  - (iv) Substantially increased output of graduates in the technologies.
  - (v) The potential of distance learning for delivering education economically.
- (b) Training loans

C.6 The 1984 White Paper "Training for Jobs" stated that the Government would "examine, in collaboration with the Manpower Services Commission and others, the possibility of establishing a loan scheme for adult trainees". DE are conducting a preliminary study of the need for and practicability of a loan scheme. The study will be submitted to Ministers soon with a view, if they agree to proceed, to designing a pilot scheme and issuing a consultative document in mid-July. Action thereafter will depend on the response and on whether main legislation is required for the type of scheme favoured.

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(c) Training the long-term unemployed

C.7 As was also stated in the 1984 White Paper, the Government are considering an MSC proposal for more training or work preparation in the Community Programme with the object of making those on it more employable. The proposal is that funds should be made available for up to 13 weeks off-the-job training or work preparation - though the average would probably be about 6 weeks - for up to 50,000 of the 130,000 places on the Programme. Participation by employers and individuals would be voluntary and no training allowances would be paid in addition to the remuneration under the Programme. Officials are examining the proposal and will shortly put a recommendation to Ministers.

(d) The very long term unemployed

C.8 The possibility is being examined of a scheme of community work for all very long-term unemployed with the dual object of maintaining their employability and enabling them to contribute to the satisfaction of local community needs. Alternatives might be to offer this type of work permanently or to permit those who have already completed a placement under the Community Programme to be eligible for another one after a further period (perhaps six months) of unemployment. People could continue to become re-eligible in this way for as long as necessary. To some extent this latter option is already possible under the current procedures, but if eligibility conditions were eased the client group would be enlarged.

C.9 At present 656,000 people have been unemployed for 2 years, of whom 300,000 have been unemployed for up to 3 years and 191,000 for up to 4 years, so the numbers such a scheme would need to cover are very large. Experience with the Community Programme indicates that finding enough sponsors and suitable projects to meet such a demand would be a problem. The costs would also be very substantial; using Community Programme criteria every 10,000 places would cost annually £43 million gross - £18 million net.

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SECTION D: LABOUR MOBILITY

D.1 Artificial constraints on mobility, both between jobs and from one place to another to take up employment, hinder the proper working of the labour market. Government measures can of course only permit and encourage mobility and not enforce it. In any case, geographical mobility involving a change of residence is likely to have only a marginal impact on unemployment when labour markets are depressed throughout the country. Mobility policies can thus be seen as complementary to regional policy which aims to contribute to a better geographical spread of employment.

D.2 There is already a fair degree of mobility. The Government has taken steps to encourage this (see Annex 2) and further possibilities are set out below.

(a) Housing

D.3 The Government has already undertaken to introduce measures to abolish solicitors' conveyancing monopoly and is reviewing the house purchase process generally, through the work of the conveyancing Committee and the official group, to see whether it can be simplified and speeded up. Of greater potential significance is the legislation to be taken in 1985/86 for the decontrol of rents for new lettings. Other possibilities include:-

- (a) further development of accessible low cost home ownership, especially through shared ownership schemes;
- (b) the direct provision of homes by building societies for sale, rent or shared ownership if, as proposed, the societies are given powers to hold land;
- (c) issuing a new circular (now in draft) which will advise authorities to increase the availability of land for housing, including the maximum use of inner urban land, and make its provision more in tune with market demand;

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- (d) taking more positive steps, eg the use of powers of direction, to encourage the disposal of sites on the land registers for development or new use;
- (e) speeding planning applications by improving efficiency and further streamlining the system-revision of the General Development Order and extending the Enterprise Zone concept more generally as Simplified Planning Zones;
- (f) reducing the disincentive effect of Capital Gains Tax on resident landlords;
- (g) amending the rules relating to resale of ex-council houses to free purchasers of the requirement to repay discount after 3 years instead of 5 as at present.

(b) MSC Mobility Schemes

D.4 The cost effectiveness of these schemes - employment transfer and job search - is currently under review and proposals will be put to Ministers in the early summer. The possibility exists for a further extension of these schemes to encourage more people to move home or to search for jobs outside their own area. At present under 5000 people use the job search scheme each year. This number could be increased by extending eligibility for the scheme, for example by removing the requirement on employers to show that a job could not be filled by local labour. Proposals are being considered by the MSC for an extensive reorganisation of the network of Jobcentres which should provide a more extensive but more cost effective placement service.

(c) Pension Schemes

D.5 The 1983 Manifesto included a commitment to ease the position of the "early leaver" under pension schemes. The Government proposals for legislation requiring pension schemes to revalue early leaver's pension rights by 5% per annum up to pension age have been published in a consultative

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document, and the new legislation is planned for next Session. The Inquiry into Provision for Retirement being conducted by the Secretary of State for Social Services is also examining ways of encouraging personal portable pensions, one of the aims being to open up fresh avenues for making pension rights even more portable from one job to another.

(d) Regional Policy

D.6 The new scheme of regional assistance - to be implemented this Autumn - aims to be more cost-effective, to be more job-related and to provide greater parity of treatment between manufacturing and service sectors. It will provide for the payment of Regional Development Grant at the higher cost of either a fixed amount for each new job created in the Assisted Areas by eligible projects or a fixed percentage of approved capital expenditure, subject to a cost per job ceiling. Levels of grant have yet to be fixed but there is a case for relatively high job grants consistent with the policy aims of cost-effectiveness and sound investment. The job grant element will have to take account of the EC policy of controlling State aids (which we support) but it might be worth reconsidering the current EC ceiling of about £3000 per job, in the interests of maximising the employment impact of the new scheme.



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SECTION E: PATTERNS OF WORK

E.1 Greater responsiveness in the labour market implies improvements in the supply of labour through adaptation to new working patterns as well as adjustments in labour costs and the acquisition of new skills. Responsibility for using labour more flexibly and adaptably must lie primarily with employers. Many British firms are indeed developing schemes for new work patterns including flexible working time, more part time working and different forms of employment contract including homeworking. The scope for this varies with the nature of the business and the composition of the workforce.

E.2 There is considerable current interest in worksharing as a means of reducing unemployment. Though this has advantages in theory in allowing highly flexible working time, there are severe practical limitations. Furthermore, work sharing has to be accompanied by pay-sharing if it is not to make business uncompetitive and push up the rate of inflation. It will be difficult to reach and enforce agreement on this.

E.3 In the light of this, Government intervention should be directed to breaking down barriers - whether of institutions, working practices or habits of thought - to the adoption of worksharing where it does have economic advantages. Any positive measures of this kind would go beyond the current more limited objective, which is to use worksharing (eg through early retirement and short and part-time working) as special employment measures. These have represented a trade-off in the short term between Government objectives because, although their initial impact on unemployment can be quite rapid, some of them may as a result tend to relieve downward pressures on wages, so producing an adverse price effect in the longer-term.

E.4 The attractiveness of worksharing in the longer term depends upon the view taken of the way in which the economy will develop. In the light of current uncertainties, it would be wrong for the Government to advocate or recommend irreversible moves towards sharing out work which might damage competitiveness and hinder employment prospects, especially with the prospect

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of a declining labour supply in the 1990s. A draft EC Recommendation on Working Time is to be considered by the June 1984 Council of Ministers, but it is important to maintain Government opposition to draft EC Directives in this area (eg on part-time work) which would have a restrictive effect on flexible working.

E.5 These considerations do not apply to policies for encouraging the trend towards increasing self-employment as a more prominent pattern of work. (DE estimates are that the number of self-employed rose by over 350 thousand between mid 1971 and December 1983).

E.6 Action already taken by the Government to encourage new working patterns is described in Annex 2 and further possibilities are set out below.

(a) Small Firms

E.7 The DTI are reviewing both the possibility of simplifying the present schemes of support for small firms and of making further efforts to remove administrative and statutory burdens; most further action also now rests with other Departments. The DTI are also reviewing the future of the Small Firms Loan Guarantee Scheme (see para E1 of Annex 2) which ends this month. A further possibility would be careful scrutiny of the tax and NI systems to ensure no discrimination against the self-employed, though NI contributions for the self-employed have already been held below the level properly due.

(b) Enterprise Allowance Scheme

E.8 This scheme for helping unemployed people set up in business is also being currently reviewed. An increase in the rate at which people enter the scheme over the next 3 months was announced on 1 May and this will contain the current waiting lists. If the scheme was made available on a demand-led basis to all who qualify, the take-up could rise annually to an estimated 70,000 at a cost of around £68 million. If the qualifying period of unemployment was also reduced from the present 13 weeks to 8 weeks, the number could rise to around 80,000 at an annual cost of £78 million.

(c) Effect on enterprise of insolvency law reform

E.9 The proposals contained in the White Paper on insolvency law reform will serve to reinforce public confidence in business standards. Some proposals are designed to increase pressure on company directors and managers to keep a close watch on the financial position of their companies so that difficulties are recognised at an early stage and also to prevent abuse of limited liability by those who deliberately drive their companies into insolvency only to start up again. There is concern that the tougher regime of disqualification and the imposition of personal liability will have an adverse effect on risk-taking especially on venture capital concerns involved in a number of new high risk companies. These should be looked at again to ensure that the right balance between encouraging enterprise and protecting the public has been struck.

(d) Part-time working

E.10 The encouragement of part-time working through the Job Splitting Scheme and part-time JRS is under review, including possible modifications to increase their attractiveness. While the low take-up of JSS makes abolition a possibility, it might also be the case that JSS would be greatly enlarged if new jobs qualified. An experiment might be valuable to see whether the extra deadweight involved would be more than offset by the genuine additional jobs created (thereby saving Exchequer money). The Civil Service could also be widely used to demonstrate the advantages of job-splitting: DE is currently working up proposals of its own and other Departments could follow suit.

(e) Limiting overtime

E.11 Discouragement of systematic overtime working as a means of creating employment is often suggested. As a matter solely of arithmetic, if the 11 million hours of overtime currently worked weekly in manufacturing could be transformed into normal hour jobs, it would yield 280,000 more vacancies for the unemployed, though this would of course be to ignore the practicalities of the real world. Moreover, the amount of overtime worked is not, on average,

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large: average overtime worked in 1983 by men was about 3 hours in an average total working week of 41½ hours (compared with about 44 hours in 1973). It is often the most efficient and cost effective way of coping with fluctuations in workload or small but regular amounts of work outside normal working hours.

E.12 To limit overtime by law would therefore require exemptions to be made (and administered) for its use where commercially justified. The limitation could in any event be effective in creating employment only if there were no significant increase in employers' costs as a result; and only the employer can determine the comparative costs of overtime as against recruitment. A prime requirement before considering Government intervention seems to be to establish why companies operate with so much overtime as business expands or are they incorrectly appraising the economics of the situation? The evidence is being reviewed, as is the possibility of linking overtime reduction to the Job Splitting Scheme so as to encourage employers who use regular overtime to consider creating two part time jobs as an alternative.

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ANNEX 2

POLICIES AFFECTING THE LABOUR MARKET AND EMPLOYMENT  
ACTION TAKEN SINCE 1979

SECTION A: LABOUR COSTS

A1. Action has been taken so far in a variety of ways:

- (a) Public sector employment. Central government has just under 2 million employees, with a total paybill of nearly £20 billions. For the collectively-bargained groups (over 1 million) the Government's general negotiating stance has been based on the principles that employers should pay no more than is required to recruit and retain at various grade and skill levels; and that affordability (in this context, the need to contain public expenditure) should play a key role. For the groups covered by Review Bodies, the same principles are taken into account both in the government's evidence to, and decisions on the implementation of, the Review Bodies' awards. But the Review Bodies generally give great weight to comparability, and thus follow, not lead, developments in the market. Since 1980, the general level of pay settlements for collectively-bargained groups in central government has been below that for the rest of the economy, while pay increases for the Review Body groups have generally kept pace with or been somewhat ahead of those outside.
- (b) Wage comparability. Schedule 11 of the Employment Protection Act 1975 (which could be used by unions to require employers to pay wages afforded in other employments) has been repealed and the Fair Wages Resolution rescinded.
- (c) Fiscal action has been taken to lower the cost of employing labour. The abolition of the National Insurance Surcharge,

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combined with the planned restructuring of First Year Capital Allowances, will substantially reduce the present tax bias in favour of investment and against employment. The abolition of investment income surcharge and the lightening of Capital Transfer Tax will help potential employers to assemble or retain capital. Increases in the income tax threshold in the last two budgets will help to induce people to seek work more actively, though this will be a long haul.

- (d) The Government has also sought to keep down labour costs by protecting employers from NI contribution increases. In 1979, the standard (not contracted-out) NI contribution rate was 6.5% of relevant earnings for employees, and 13.5% (including 3.5% NI surcharge) for employers. From October 1984, the rates will be 9% for employees, and 10.45% for employers (there being no NI surcharge from that date). In other words, employers will have been released entirely from the earlier 3.5% NI surcharge, and the increases needed in the national insurance contribution (excluding the NIS) have been imposed mainly on employees (to the extent of 2.5%), while employers have been shielded so far as possible by increasing their contribution by only .45% over the same period.
- (e) Statutory burdens on employers associated with employment have been relaxed. In 1979 the qualifying period of employment for the protections against unfair dismissal was increased from 26 weeks to one year. The Employment Act 1980, among other relaxations, further increased the qualifying period to 2 years for employment with employers employing 20 or fewer employees; and in the unfair dismissal procedures, both qualified the test of "fairness" (so that the size and administrative resources of smaller employers were taken into account) and shifted the onus of proof away from the employer.
- (f) More realistic wages for young people have been encouraged. This has been done directly through the Young Workers Scheme, which now

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provides for employers to claim weekly payments of £15 for up to 12 months for each eligible young person (mainly 17 year olds) employed at less than £50 a week. The £25 a week limit on reimbursement to employers of allowances paid under the Youth Training Scheme has similar effects.

A2. It is not possible to disentangle the effects of the Government measures from the impact of economic influences generally on pay determination within industry and commerce. There is, however, still a continued stickiness in the way in which employers adjust wages to their particular circumstances, evidenced in the way that wage increases have, despite recession, remained higher than price inflation. But there is evidence that skill differentials have widened, that the pay of young workers declined sharply relative to that of adults between 1982 and 1983, and that in some sectors apprentice pay has been reduced under new training agreements.

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SECTION B: LABOUR RELATIONS

INDUSTRIAL RELATIONS LEGISLATIVE FRAMEWORK

B1. Trade unions have lost immunity for inducing, etc industrial action outside restricted definitions of what is lawful (eg for secondary picketing, secondary action, disputes not between an employer and his employees wholly or mainly concerned with terms and conditions of employment). They are now at risk to injunctions (with the sanction of unlimited fines if they are not observed) and damages (subject to limit). Requirements in commercial contracts about union membership or recognition have been voided and industrial action to enforce them no longer has immunity. Dismissals from closed shops are unfair unless they have been overwhelmingly approved in secret ballots. Dismissal of strikers at only one establishment of an employer is no longer unfair.

B2. When enacted, the Trade Union Bill will ensure that all voting members of union executives are elected by secret ballots; that trade unions will have no immunity for industrial action if a secret ballot of the members concerned is not held; and that union political funds need to be approved by a secret ballot every 10 years.

EMPLOYEE INVOLVEMENT

B3. The Government believes that managers can secure better results, including better technical standards and the acceptance of necessary change, where they voluntarily consult workers about decisions affecting them. Steady progress is being made. For example, the last authoritative survey showed a 6% increase in the previous 3 years in the number of establishments with joint consultative committees - to 37% in all establishments and 76% in establishments with over 1,000 employees. Section 1 of the 1982 Employment Act provides that firms with more than 250 employees should state in their Annual Reports the specific steps they have taken to further employee involvement. This provision is now in operation and we shall be examining the first results later in the year.-



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SECTION C: LABOUR QUALITY

C.1 Since 1979 sustained attention has been given to the ways in which education and training can support employment. A more coherent policy framework has been established and action taken both to improve education as a preparation for working life and to relate training for particular jobs much more closely to the requirements of industry and commerce.

The Contribution of Schools

C.2 The Government's policy to raise standards in schools includes the objective of equipping pupils throughout the ability range with a broad range of skills, competence and understanding. This will improve their preparation for training and employment. It is part of the aim that the school curriculum should be broad and balanced, relevant to the world of work with an appropriate emphasis on practical applications, and differentiated in accordance with ability and aptitude. As this action programme takes effect over time, school leavers will enter the labour market better grounded in personal qualities, attitudes and skills for training and employment.

C.3 In 1981 the Secretaries of State for Education and Wales set out the policy objective in broad guidance to the education service and asked LEAs to prepare curricular policies for their areas accordingly and to report on these in due course: reports have since been required by 30 April 1984. In January 1984 the Secretary of State for Education and Science announced the longer-term aim of raising the attainment of 80-90% of pupils at age 16 to the level now expected and achieved by the average pupil over a range of subjects and skills; this aim is to be achieved by a more closely defined curriculum (which would extend to the promotion of personal qualities and attitudes as well as subject learning), improved methods of assessment, including the 16+ examinations, and enhanced teaching quality.

Training and Vocational Education Developments

C.4 The 1981 White Paper "A New Training Initiative: A Programme for Action" set out three national objectives for the reform of skill training, for the vocational education and training of the young and for adult training. A specific action programme was set towards the NTI objectives of which the main features were introduction of the new Youth Training Scheme; the establishment of "Open Tech" to improve access to training and re-training opportunities; a target date of 1985 for training to recognised standards in place of time-serving and age restricted apprenticeships; greater vocational relevance in the school curriculum; and an examination of the sharing of training costs as between trainees, employers and the tax payer. Since the White Paper the Industrial Training Board system has also been substantially reformed.

C.5 The January 1984 White Paper "Training for Jobs" describes something of what has been achieved so far and the further action already under way or planned. The principal features are:

- (a) The education service has been encouraged to improve the preparation which it offers young people for work through
- developments in the school curriculum
  - the introduction of the Certificate of Pre-Vocational Education
  - the introduction of the Technical and Vocational Education Initiative
  - strengthening schools' and colleges' links with employers (the Colleges-Employers Links Projects Programme is especially relevant);

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- (b) the roles and responsibilities of employers, trainees and Government have been clarified on the basis that training is an investment which needs to be attractive financially. Restrictions on access to training and the deployment of trainees must be removed. The main responsibility for training rests with employers, but trainees can contribute by accepting realistic allowances and Government by helping with the transition from school to work, training the unemployed and funding experimental courses in new technologies and techniques.
- (c) the Youth Training Scheme has been successfully launched and 1984-85 will be a year of consolidation with an emphasis on improving the quality of training. It fully meets the UK's obligation under the EC Resolution on Vocational Training of July 1983, to ensure that (within 5 years) all minimum age school leavers should receive training or work experience. (The UK currently expects to receive about £200 millions towards the cost of YTS and related programmes from the European Social Fund for 1983/84. Recent revision of the Fund rules will enable us to claim even more in future.)
- (d) some industries have made substantial progress towards reforming their arrangements for training in occupational skills (including apprenticeships) though much still remains to be done to meet the 1985 target. The wider, longer-term, aim is to adopt a coherent system of training standards and certificates of competence, covering achievement in vocational education and training, both initially and throughout working life.
- (e) the MSC is initiating a national campaign to raise awareness of the need to offer more opportunities for adults to acquire, improve or update their skills, and, with DES, is encouraging closer local collaboration between employers and education and training organisations. MSC's adult training programmes will be restructured to help many more people with job-related training.

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as well as training geared to the needs of the unemployed. Skillcentre training has been put on a commercial basis by setting up the Skillcentre Training Agency, and Open Tech will be extended;

- (f) public sector provision for training and vocational education is intended to be made more responsive to employment needs by increasing MSC's resources for purchasing work-related non-advanced further education in England and Wales to about one quarter of the total provision in this area.

C.6 Further initiatives have also been taken in the education sector.

- The DTI's Industry/Education Unit is working in collaboration with industry and commerce, for example to provide industrially relevant resource material for schools, colleges and Examination Boards; to encourage industry-related expertise in both initial and in-service teacher training; and to introduce new technology into all schools eg through the various "micros" schemes;
- opportunities for adults are being enhanced through the DES Professional, Industrial and Commercial Updating Programme, which is now in its stride;
- DES's Information Technology in Higher Education Initiative is substantially increasing the output of IT-qualified graduates and diploma-holders;
- the Further Education Unit has been strengthened;
- the planning exercise of the National Advisory Body for Local Authority Higher Education, related to intakes in autumn 1984 and after, substantially increases the proportion and total effort within Advanced Further Education devoted to work-related courses (especially engineering and business studies);

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- first degree engineering courses in universities and polytechnics have been much evolved in the light of the recommendations of the Finniston Committee (1979) and subsequent attention to this topic;
- the MSC has collaborated with the DTI in the development of Information Technology Centres (ITECs) of which 150 have been approved.

The use of skills

C.7 A more competitive industry also requires the full use of trained people's skills. This is the responsibility of industry and commerce itself and there is evidence of progress. Large companies, such as Pilkingtons, ICI and Michelin have been making agreements to provide for greater interchange of process workers and craftsmen at the workplace and for more "hybrid" multi-skilled workers. In some cases, eg BSC, British Shipbuilders and provincial newspapers, market forces have provided the main spur to breaking down old demarcations. The introduction of new technology has encouraged the same developments, eg at BL, Rolls Royce and Blue Circle. Such changes owe much to the application of greater management confidence and resolve and the involvement of employees affected.

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SECTION D: LABOUR MOBILITY

D.1 Since 1979:

- (a) changes in housing policy have helped to free the housing market and therefore allow greater mobility. Home ownership has been extended; a start has been made on reducing restrictions on private letting; the rate of stamp duty on house purchase has recently been reduced; and in the public sector the National Mobility Scheme and the Tenants Exchange Scheme have served to make it easier for Council tenants to move from one area to another. No reliable assessment can be made of the impact of these measures on willingness to move: from the 1971 to the 1981 Censuses there was a fall in total mobility probably due in part to the reduced employment opportunities in recent years; in 1982-83 the National Mobility Scheme accounted for over 4500 moves at national (as distinct from County) level, the Tenants Exchange Scheme for up to 4000 moves. The latter will be reinforced by a Statutory Right to Exchange for public sector tenants contained in the Housing and Building Control Bill which should shortly receive Royal Assent;
- (b) the Government has taken a number of steps to speed up the performance of the planning system. Duplication between planning authorities has been reduced. Approved structure plans now cover the whole of England apart from Avon, and a large number of local plans are in preparation. The proportion of planning applications decided within 8 weeks has risen from around 60% in 1979 to around 70% in 1982 and the first three quarters of 1983. A range of measures to speed up the handling of planning appeals has also been carried forward and the average decision time for all appeals was 21 weeks in 1983 compared with 29 weeks in 1979. A range of new initiatives has been developed to assist inner city areas: land registers, urban development grant and the establishment of

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urban development corporations in London and Liverpool. All these measures are now leading to increased private sector housing activity in urban areas;

- (c) the MSC's placement services have been improved. The computerised vacancy circulation system has been implemented nationwide. Arrangements have been made for Jobcentres and private employment agencies to display details of each other's services in order to encourage jobseekers to make full use of both private and public sector assistance in finding employment. The Professional and Executive Register (PER) has been given a separate trading account and required to cover its costs on this basis. By removing the "social subvention", PER has been exposed to competition from private employment agencies on fairer terms. The MSC Employment Transfer and Job Search Schemes have been extended to cover a wide range of skilled jobs. These schemes help fill jobs where employers cannot find suitable workers locally, by providing grants to unemployed people to move home and take such jobs or to look for work in other areas;
  
- (d) loss of pension rights can deter people from changing jobs and the Government has encouraged the pensions industry to take action to deal with the problem. Regulations have also been amended to ease the rules for transferring pension rights from one contracted out scheme to another.

D.2 The December 1983 White Paper on Regional Industrial Development proposes policy changes to contribute to a better geographical spread of employment. It states the Government's belief that the case for continuing with regional industrial policy is now principally a social one with the aim of reducing, on a stable long term basis, regional imbalances in employment opportunities. Regional industrial policy has another justification as the mechanism through which we obtain our share of the European Regional Development Fund: £170m was received in 1983.

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SECTION E: PATTERNS OF WORK

E.1 Small firms often have advantages in achieving the flexible working practices necessary for their survival and growth. Ninety-five per cent of all enterprises in manufacturing employ fewer than 100 people and the small companies' share of manufacturing output has begun to increase in recent years. The Government has done much to assist the establishment and growth of small firms through measures designed to offset their inherent disadvantages, notably in regard to managerial and other specialist resources and the supply of capital. Fiscal measures (e.g. lower Corporation Tax, better stock option arrangements to attract good management) are part of this. The Loan Guarantee Scheme is estimated to have contributed 33,500 net new jobs. The Business Expansion Scheme has also been successful in tapping new sources of equity capital for small firms.

E.2 The Enterprise Allowance Scheme, introduced as a special employment measure last year, has proved extremely popular among unemployed people as a means of helping them set themselves up in self-employment. It pays them an allowance of £40 a week for up to a year in place of benefit. Some 31,000 people have benefitted from the scheme since it began. The Scheme is cash-limited and applications far outrun places.

E.3 The Government has also encouraged greater flexibility in working life through more flexible rules relating to retirement. All men over 60 on supplementary benefit can now qualify for the higher long-term rate of that benefit; and unemployed men over 60 get NI credits for future pension and benefit purposes without having to register as unemployed. The Job Release Scheme is now a long standing special employment measure which has encouraged older people (at different points in the 60s for men and at age 59 for women) to retire early and vacate their job for a younger unemployed person. The scope of the scheme for men (other than disabled) has been brought back this year from age 62 to age 64 so it will have a more limited effect.



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E.4 Some encouragement has been given by the Government to the spread of part time working through the introduction last year of the Job Splitting Scheme and part-time Job Release as special employment measures. The former scheme makes a grant over 12 months to an employer who splits a full time job into two and recruits one of the part timers from the unemployed: the part time JRS is available to men from age 62 and offers half the full time JRS allowance to those who wish partly to retire and where the part of the job thus released is occupied by someone unemployed. Both schemes are in line with expressed interest in flexible retirement and worksharing but both have had a very low take up so far.

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## EMPLOYMENT PROSPECTS

Note by the Secretary of State for Employment

1 Cabinet on 1 March decided that it would be useful to look in more depth at future employment prospects and the scope for Government action to improve them.

2 This note is concerned with future employment prospects. Attached to it is a background paper prepared by my officials, in consultation with Treasury officials, which examines recent trends of employment and unemployment and their view of prospects for the future.

3 The broad thrust of the paper is that, barring unexpected shocks in the domestic or international economies, adult unemployment in three years' time might be expected to fall somewhere in the range 2½-3½ million.

4 I believe that our economic strategy is working and that unemployment will be in the lower part of the range. But the paper points out that the recovery in output has been going on for three years without any effect on unemployment, and also that even within a "shock free" scenario quite a number of things have to go right if we are to see a strong and sustained reduction in unemployment

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5 At the moment, it is not impossible that unemployment will drift slowly up during this year. Real wages are rising; labour supply is increasing; and the high level of productivity increase - most welcome in itself - is running ahead of the increase in output.

6 If the assumptions in the paper turn out to be pessimistic (eg if there were faster growth in the world economy), we might do better than is suggested. But I think it is prudent also to consider what would happen if there were adverse shocks to the economy, such as a slowdown in the US or world economy or a rise in inflationary pressures. Unemployment might then continue on an upward path into the higher part of the range or could even be above it. And, of course, such an outcome would simply increase the time it took for our economic strategy to pay off in terms of employment and unemployment, and probably damage its credibility in the country.

7 The Annex also points out that, if unemployment were to continue at a high level or were to rise further, this would mean disproportionately serious problems for long-term unemployment, for the 18-25 age group, and for particular localities.

8 While I am optimistic on the economic and employment front, I think it is prudent to consider the range of possibilities which lie ahead. Given the long-time lags between policy initiatives and their effects, we should consider what we might do - and when - if things do not turn out as well as I expect.

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BACKGROUND PAPER

LABOUR MARKET TRENDS AND PROSPECTS

1 The UK economy is about to enter the fourth year of recovery from a recession which reached its trough at around the second quarter of 1981. The inflation rate has been halved, output is now growing at three per cent a year, and there has been an improvement in cost competitiveness. Despite these developments, there is no sign of a downward trend in unemployment. To explain this paradox, this paper looks first at the broad trends of development over the past three years and then at more recent trends. It then attempts to draw out the implication for the prospects over the next three years.

THE PAST THREE YEARS

2 Over the past 3 years, GDP has grown at an average rate of  $2\frac{1}{2}$  per cent a year (or 2 per cent a year if North Sea oil output is excluded). But in the early part of this period and before, the rapid growth in real earnings together with high interest rates and a high exchange rate put companies under severe financial pressure. They responded by reducing their stocks and to some extent by resisting continued rapid earnings growth; but they also shed labour, thereby increasing productivity to an unusual extent. In manufacturing, output per person grew at an average rate of over  $6\frac{1}{2}$  per cent a year - the fastest sustained growth in productivity since the war - and for the economy as a whole (excluding North Sea oil) it grew by about 3 per cent a year.

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3 Productivity thus rose to an unexpected degree and, especially in manufacturing, substantially exceeded the growth in output; this had its counterpart in a rapid fall in employment. Over the three-year period, productivity growth, for the whole economy excluding North Sea oil, exceeded output growth by a margin averaging 1 per cent a year, corresponding to the same percentage fall in employment. The average annual fall in employment over the last three years has been about 320,000 in GB manufacturing and about 300,000 for the employed labour force as a whole.

4 Demographic growth added significantly to the problem but its effect was partly offset by a fall in the proportion of the population seeking work. Activity rates among prime-age males do not appear to have fallen in response to the recession, but among men of 55 and over there has been a continuing sharp fall which is thought to have been influenced also by the Job Release Scheme and by the increased availability of occupational pensions schemes. Recessionary influences appear, however, to have been mainly responsible for the cessation of the hitherto upward trend in female activity rates in the late 1970s and for their noticeable decline since 1981.

5 To summarise: the picture over the last three years, from December 1980 to December 1983, is:

- (a) an annual average increase in the labour force of about 150,000

- (b) an annual average decrease in the employed labour force of about 300,000
- (c) an annual average increase in unemployment of about 330,000.

THE PAST YEAR

6 Unemployment in April 1984 stands at some 800,000 above its level of three years previously, but virtually all of this increase occurred in the two years to April 1983. It is thus evident that, within the three-year averages referred to above, a new trend has been emerging in the course of the past year. Because of the delay in getting statistics there has to be a large element of guess work as to what has really been happening in the past year. We believe it is as follows.

7 GDP growth has accelerated in the course of the past year, at 3 per cent for the whole economy or  $2\frac{1}{2}$  per cent excluding North Sea oil, some  $\frac{1}{2}$  per cent above the three-year average. This has reflected growing consumer and business confidence following reductions in inflation and interest rates, improved prospects for world trade, and a recovery of cost competitiveness. There has been a marked easing of the financial pressures on the company sector and many firms have been rebuilding their stocks.

8 In the labour market, the past year has seen a renewed growth in real earnings, accounted for by the fact that, although the growth rate in nominal earnings had fallen to less than half of that of early 1981, the fall in the inflation rate was substantially greater. Productivity continued to rise, and overall competitiveness increased throughout 1983.

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9 Compared with the three-year averages referred to above, the gap between productivity growth and output growth was reversed in the past year with output growth exceeding productivity growth for the economy as a whole by perhaps  $\frac{1}{2}$  per cent, corresponding to about 100,000 people in more jobs. The fact that unemployment did not fall appears to be accounted for by an increase in the labour force of over 150,000, but offset by the substantial increase which has occurred in the impact of special employment measures.

PROSPECTS FOR THE NEXT THREE YEARS

10 The Department of Employment's projections suggest that over the next three years the labour force may be expected to grow at an average rate of about 120,000 a year, with a population effect of about 100,000 a year and an expected increase in activity rates comprising a resumption in the growth of female activity rates, partially offset by a continuing decline in activity rates among older men. These projections suggest that an average increase in employment of 120,000 a year would be just sufficient to maintain unemployment at its present level over the next three years. But allowance has also to be made for a probable small decline in the impact of employment measures so that the employment increase required might be put in round figures at 130,000 (or about 0.6 per cent) a year. On these assumptions, unemployment would therefore remain at present levels if output growth exceeded productivity growth by a margin of 0.6 per cent.

11 The latest version of the Medium Term Financial Strategy assumes that the average rate of growth of output over the next three years will be slightly in excess of  $2\frac{1}{2}$  per cent a year excluding North Sea oil. If productivity were to grow at between  $1\frac{3}{4}$  and 2 per cent, which is the rough average of current assumptions, on this basis, there would be no significant rise or fall in the level of unemployment over the next three years.

12 But both assumptions could well turn out to be wrong. If the gap between output and productivity growth were larger, employment would grow more rapidly, and vice versa. Different trends in activity rates from those assumed could also produce different outcomes for unemployment. Each percentage point increase by which output growth exceeds productivity growth would lead to an increase in employment of about 200,000 a year and a reduction in unemployment of perhaps 150,000 a year.

13 A slower growth of earnings relative to productivity is one of the most important routes through which a more favourable outcome could come about. In time it could lead to increased output relative to productivity, through better competitiveness and profitability and lower interest rates. If annual earnings growth were some 2 percentage points lower, the initial reduction in unemployment on account of increased output alone might be about 50,000 a year in the first few years.



14 Slower earnings growth would also tend to lead to a slower substitution of capital for labour and the growth of the more labour-intensive sectors of the economy as relative costs and prices in those sectors fell. Such substitution and structural effects would show up at the aggregate level as a lower rate of productivity growth, and hence a reduction in unemployment. But they take time to build up, and the improvement in employment may not be large in the first few years.

15 Faster output growth for reasons other than slower earnings growth would also tend to improve unemployment, unless it was associated with productivity growth that was higher to the same extent. Over the next few years it is possible that output may grow more rapidly, perhaps because of better world economic conditions, an improvement in non-price competitiveness, or an increase in domestic demand. This is unlikely to be matched by an equal increase in productivity growth.

16 On the other hand, the outcome could be less favourable than assumed. The recovery has been under way for almost three years, which by the standards of most post-war recoveries is a long time, without a major effect on employment or any effect on unemployment. This partly reflects the fact that the recession was deeper than on earlier occasions. But this does not necessarily mean that a cyclical downturn will not occur within the next few years, particularly if economic developments abroad lead to less output growth than is being assumed.

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17 The outcome could also be less favourable even if output grows at the assumed rates. It is possible that labour shedding will continue at a fairly high level, and that productivity will grow rapidly as a result, without a correspondingly high rate of output growth. There is still plenty of scope for reducing overmanning before the levels of other major industrial countries are reached. In general, however, faster productivity growth, especially when it is not the result of a labour shake-out, will be accompanied by faster output growth rather than by slower growth in employment.

18 Departures from the projected labour force trend could also influence the outcome. Although the demographic trends used in the projection are well established, some uncertainty surrounds the projected activity rates. For older males it is assumed that, in view of the retirement bulge commencing in 1985, pressure for early retirement will ease, so that activity rates will decline at a slower rate than in the late 1970s. If they had been assumed to decline at the same rate, then the projected growth in the labour force would have been lower by some 50,000 a year. The projected female activity rates are sensitive to assumptions concerning fertility. If instead of the OPCS central projections their high-fertility variant had been used, the projected labour force growth would again have been lower by about 50,000 a year.

THE PLAUSIBLE RANGE OF OUTCOMES

19 It is evident that substantial uncertainties surround the central assumption of a stable path of unemployment. By

varying a number of key assumptions it would be possible to construct an alternative scenario in which unemployment falls by, say, 300,000 a year. But to do so would involve an exceptionally favourable combination of circumstances. Though unemployment during the recovery from 1932 did fall by over 300,000 per annum for a sustained period, and though the current US job generation shows what economic dynamism can do, there is no precedent in British post-war history for a sustained fall of this magnitude over a three year period. The most rapid rate of fall was at 215,000 a year during the "Barber-boom" of 1972/3, but this was sustained for only 21 months. It would be equally possible, moreover, to construct a pessimistic scenario in which unemployment continues to rise at a rapid rate.

20 On the above analysis, assuming no major shocks to the economy, it is reasonable to see a band of outcomes ranging from decline in adult unemployment of about 200,000 per annum over the next three years, to an increase in adult unemployment of the same order. On this basis, adult unemployment might be expected to fall in the range  $2\frac{1}{2}$ - $3\frac{1}{2}$  million.

#### THE INCIDENCE OF UNEMPLOYMENT

21 The bulk of the employment growth over the next three years is expected to occur in the private service sector, with probably offsetting falls in manufacturing and public sector employment. This suggests that female employment is likely to grow more rapidly than male employment. On the

other hand, female activity rates are expected to rise and male activity rates to decline. On balance this suggests a continuation of the recently-established tendency for female unemployment (which at present stands at 9 per cent) to rise somewhat relative to male unemployment (now at 15 per cent). The decline in the relative pay of young people observable over the past few years may contribute to this trend by displacing female employment.

22 There is likely to be some change in the age distribution of unemployment. While unemployment rates in the 25-54 age bracket seem likely to remain in the region of  $10\frac{1}{2}$  to 11 per cent, unemployment among under 18s (now 23 per cent) is likely to show a marked decline for demographic reasons, because of lower relative pay, and because of the impact of the YTS and YWS schemes. Among 18 and 19 year olds there may be a slight rise from the present rate of 27% as a result of displacement by younger people, and this might also be the case for 20-24 year olds, where the rate is currently 21%.

23 Long-term (over 12 months) unemployment is expected to stabilise at not much above its present level of 1.2 million or 37% of all unemployed. The proportion of the unemployed who are long-term unemployed rises consistently with age, to over 45 per cent in the over 55 age bracket. It remains significant for younger people, however, at over 25 per cent for 18-19 year olds.

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24 The regional distribution of unemployment is expected to show no major change, with the possibility of a continuing deterioration in the West Midlands and some improvement in Scotland and the South West. Even on the more optimistic scenario, unemployment will remain very high in some parts of regions and some localities, eg inner city areas.

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18 May 1984

*Dear Andrew*

SEMINAR ON INDUSTRY AND EMPLOYMENT

... I enclose, as requested, 12 copies of my Secretary of State's papers for the above seminar, which we agreed you would circulate from No 10.

*Yours sincerely*  
*David Normington*

D J NORMINGTON  
Principal Private  
Secretary

17 May 1984  
Policy Unit

WIDER OWNERSHIP

The Conservative Manifesto states:

"A free and independent society is one in which the ownership of property is spread as widely as possible. A business which is partly or wholly owned by its workers will have more pride in performance. . .

"Under this Government, the property-owning democracy is growing fast. And the basic foundation of it is the family home."

"We want to encourage wider ownership. This means lowering taxes on capital and savings; encouraging individuals to invest directly in company shares; and encouraging the creation of more employee share schemes."

Why is the private ownership of property so important to a free society?

The home-owner has many freedoms which council tenants do not enjoy. He can move anywhere in the country by selling his house and buying a new one; he can improve, renovate and paint his house as he sees fit, subject to planning controls; he can borrow against his assets and use profits from sale for other purposes. This can help him finance enterprise and business ownership.

The shareholder and part-owner of a business has rights which an ordinary employee or customer does not have. True employee involvement in company affairs comes through share-ownership. He can make his views known on the future direction of the company, its policy, its management and style. He can vote on board policy, and to support or reject the candidatures of directors.

In summary, the ownership of property brings people new rights. It spreads power in the community. It brings new responsibilities. The home-owner has to repair his own property. The employee-shareholder thinks about the profitability of the company as well as about his next wage claim. It is the best bulwark against nationalisation and confiscation of assets by the state. People gain a vested interest in freedom. Wider ownership can ward off negligent management, or the abuse of power in large companies. Wider share-ownership enables others to participate in the profits of hi-tec and rising productivity. Home-ownership removes the threat of tyrannical landlords - whether they be council or private.

A policy of wider ownership is both popular and stable. Policies to enforce redistribution of wealth become so much less attractive when wealth is more widely spread. It is

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one of those few examples of a policy which, at one and the same time, meets with very widespread support and is extremely difficult to reverse.

What are the options for stimulating home-ownership further?

Home-ownership is now a realistic objective for two-thirds of the population, and over 60 per cent have now achieved this aim. It could easily become reality for three-quarters of the population. Some of the better council housing estates are already being transformed by their new owners keen to renovate their homes, improve their gardens and change the face of their estate.

- a. The functioning of the housing market. For some buyers, particularly first-time buyers, the costs and complexity of house purchase can still represent a serious obstacle. The Government has started to take action, halving Stamp Duty, raising the threshold, and announcing an investigation into the solicitors' conveyancing monopoly.

Stamp Duty and legal costs remain large expenses in the purchase of a home. The options therefore include:

- i. a further reduction in Stamp Duty (threshold and/or rate);
  - ii. ensuring that enough competition is introduced into the provision of conveyancing services to lower the cost and improve the quality of the service (Committee now investigating how to proceed);
  - iii. a more rapid extension of registered land, which is the best way of cutting the costs and complexity of securing a recognised title;
  - iv. further encouragement of competition between estate agents, who are now beginning to compete on fee as well as on service. {E(CP) could look at this question.}
- b. Council house sales.
- i. The Right to Buy scheme can be extended to include the right to buy houses on leasehold land and the right to buy on a shared-ownership basis (Manifesto pledge). Housing and Building Control Bill is proceeding along these lines.



- ii. The maximum discount can be increased further. Housing and Building Control Bill raises it to 60 per cent after 30 years.
  - iii. The period during which the house has to be held in order to gain the exemption from any clawback of the discount could be reduced from the current 5 years.
  - iv. More publicity could be given to the schemes. Something is planned for September by the DoE, which could include leaflets, adverts and building society help.
  - v. The question of obstructive and dilatory councils could be re-examined. The Secretary of State does have powers to intervene under the 1980 Act.
- c. Encouraging more private sector owners. The best way of encouraging home-ownership is the encouragement of a low interest rate policy through tight control of public borrowing, in accordance with the general economic strategy. Tony Crosland remarked as Housing Minister that he eventually discovered that the Chancellor ran housing policy! Options here include:
- i. A renewed drive to sell the vacant land owned by local councils, nationalised industries and health authorities, particularly in urban areas, in a concerted effort to get more, cheaper, developable land available for the construction of low-cost homes. Such a drive in docklands has already led to the construction of homes in the £25-35,000 range, which brings them within the reach of many people who never dreamt they could afford a home anywhere near the centre of London. NHS vacant residential accommodation could also be sold.
  - ii. A renewed drive to develop homesteading schemes to move people in to derelict property, often owned by councils, which they can then rehabilitate - in return for favourable terms on rent - with an option to purchase. There are far too many tinned up terrace houses that should be used.
  - iii. Encouragement of building and improvement for sale by local authorities. This can involve

using public wasteland through partnership schemes.

- iv. Careful drafting of the building society legislation to enable them to strengthen the services they provide in the housing market, without allowing them powers to lend money for industrial purposes.
- v. Allocating more money to the Housing Corporation to facilitate do-it-yourself shared ownership.

What can be done to encourage employee shareholdings more fully?

Continuing the policies to reward enterprise, so that people can make money by owning shares in a profitable business is the best way of proceeding. Lower taxes are the main necessity, coupled with a stable economy so that equity values are not subject to violent downward adjustments.

Some of the options before the Government are:

1. Making the Enterprise Allowance scheme demand-determined at the expense of some of the most costly job-creation programmes. (Under consideration.)
2. Continuing to offer a wide range of incentives to employees to buy shares in denationalised concerns. The three main techniques are the free offer of shares to all employees; the offer of additional shares at a discount to the public price, with some limitations on the number; and the pink-form preferential applications for shares in the issue at the public price. All these three techniques have worked in the past, and should continue to be a predominant feature of those denationalisations not being handled by management buy-out. (See DTI paper.)
3. A revised fiscal regime for all savings (see below) to make direct ownership at least as attractive as, and preferably more attractive than, institutional ownership.

Why is wealth largely held through institutions?

Institutional ownership of company securities has built up rapidly over the last 20 years. There are now estimated to be only half a million independent private shareholders in British companies in the UK, even though there are 2 million people with private wealth holdings, apart from their house and their pension fund, in excess of £10,000.

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The aggregate figures for the personal sector wealth holdings in September 1983 were:

Insurance and pension fund investments	£175 billion
Building society shares and deposits	£75 billion
Company securities	£55 billion
National Savings and gilts	£45 billion
Others	£40 billion
<b>TOTAL</b>	<b>£455 billion</b>
Borrowings	£50 billion
<b>NET ASSETS</b>	<b>£405 billion</b>
Houses (end 1982)	£350 billion
Mortgages	£90 billion
<b>NET HOUSING ASSETS</b>	<b>£260 billion</b>
<b><u>TOTAL NET ASSETS</u></b>	<b>£665 billion</b>

(CSO figures rounded)

£405 billion of non-housing assets is shared roughly between 40 million people over the age of 18. This is an average of £10,000 per head. This stock of wealth is being added to by regular saving. In 1982, there was £20 billion of personal saving; in 1983, £17 billion.

Any cursory analysis of the figures demonstrates that a very high proportion is either held cautiously or through institutional hands. The odd thousand pounds or two held by most people should not be held in the form of shareholdings. Most people want a prudential balance, and a sensible place to keep that is in a building society or a bank deposit account, or with National Savings. This will remain true.

Until the last Budget, if I took out an insurance policy I received tax relief on the premiums. And even now if I take one out as a higher-rate taxpayer, the taxation of the

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income on the investment is sheltered by the 37.5 per cent insurance company tax rate, compared with the 60 per cent if paying top rate tax. If I buy a house, the interest on the mortgage can be offset against tax, and the asset is free of capital gains on disposal. If I wish to save for my retirement through an institutionalised pension fund, I receive tax relief on the contribution, on the investment and capital gain within the fund, and on the lump sum which I can get in part payment on retirement. If I invest up to a given sum in National Savings, SAYE and a Girobank account, I get tax relief on the interest paid. And if I buy a Government security and hold it for longer than 1 year, I am exempted from Capital Gains Tax. If, however, I choose to go out into the marketplace and buy an ordinary share in a British company, I get no tax relief whatsoever.

There are two ways of approaching this difficulty. One way is to give some limited tax relief to encourage direct investment in shares along the lines of the Loi Monory in France. The alternative way is to tackle the problem of the incentives to institutional saving. The Government has started out on this latter course to simplify tax. It is assumed, for the purposes of this paper, that this is the right route and it is the one that the Government will want to pursue.

The big areas to examine are pensions and life insurance.

Pensions. The average member of the average pension scheme has £11,000 of assets about which he knows little. Norman Fowler's Inquiry into pensions is making progress in finding ways in which people can be sure that they will get a realistic transfer value from their pension scheme when they leave; and in finding ways in which those individuals who wish to be more personally associated with this part of their wealth can do so. Policies to force more disclosure of what the individual is worth, to force better transfer values, and to give a wider range of options to those joining companies or moving companies or setting up in business on their own, are all methods for moving towards a world in which individuals understand this enormous wealth that they own and have more direct control over it.

Another option is to consider breaking some of the fiscal advantages enjoyed by the pension funds.

Insurance company investments. The removal of life assurance premium relief is likely to make a considerable impact on the number of new insurance policies sold. Many of these policies had become an elaborate method for capturing tax relief for

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investment schemes, whereas the original intention was to encourage life cover. The market will now concentrate on selling pension schemes instead of life assurance-related savings.

Making markets more accessible to individuals. In addition to the fiscal advantages of institutional ownership, to the average man the stock market is a remote rich-man's casino, and he would not know how to go about buying a share even if he wanted to.

He is put off by:

- (a) The absence of retail outlets in the average high street - the building societies only grew like Topsy as and when they were able to install attractive looking branches in every town and shopping high street in the land.
- (b) The high costs of dealing - 1 per cent contract stamp, coupled with 1.65 per cent stockbroker's commission and a 3-4 per cent jobber's spread.
- (c) Attitudes of much of the financial community who have not been actively encouraging the small man to use their services.
- (d) Fears of losses or of being caught up with wrong advice.

Many of these problems can and should be tackled by the impending revolution in the City. One of the changes that should take place is the development of retail branches transacting share business. The building societies on an agency basis, the Post Offices, the major clearing banks, even some of the large chain stores all have the outlets which could offer this facility. It may be that firms like the new Charterhouse-Hambro merger will take the lead. Another developing route will be purchase through TV/home computer telephone-linked services direct to your home.

Dealing costs have been reduced by the halving of Stamp Duty in the Budget. As the market moves towards a new trading system, based on an amalgamation of jobbing and broking, the spreads and commission costs of dealing particularly in the larger shares should come down quite sharply. Whether they will do so for the small man or not depends on whether "execution houses" spread in the UK as they have in the US, offering a cheap, no-frills business to all comers. It is desirable that they should.

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Nothing succeeds like success. If people do start buying shares and they go up in value, they will become shareholders for life. Governments cannot legislate for rising markets, but they can try to pursue economic policies that favour profits and dividend growth (as with the corporate tax changes) and offer a stable environment for business. As the veils are removed on pension fund values and assets, more and more people will come to appreciate that their futures are already ventured in Stock Exchange securities, and some will want more direct control or choice over adviser.

Much of this is a chicken-and-egg question. Many people in the City say of course they would do the business if the business were there to do; whilst others object that the business will not be there to do unless they show they are willing and happy to do it in a friendly and efficient way. The Government should give every encouragement to the development of a retail Stock Exchange, and should certainly eschew regulation of the market in a way which bolsters the role of the big institutions at the expense of the small man. It can encourage full disclosure of dealing, oppose cartels, and show people what they own through its pension, insurance and building society policies and legislation.

#### CONCLUSION

Wider property-ownership is central to the philosophy of this Government, is politically popular, and is difficult to reverse.

It can be given renewed impetus by:

- (a) A further stimulus to council house sales.
- (b) Policies to associate people with their pension fund wealth more directly.
- (c) Fiscal neutrality between savings mechanisms.
- (d) Using the changing shape of the City to expose individual wealth, and regulating and legislating in a way which encourages individuals to participate.
- (e) The denationalisation programme. BT is an especial opportunity to widen share-ownership in view of its size and the publicity planned for it.

What action has the Government taken to increase home-ownership?

The Government has been successful in encouraging more people to own their own home. In Great Britain in December 1961, there were 7,085,000 privately-owned homes. This figure had risen to 9,598,000 by December 1971; to 11,430,000 by April 1979; and now stands - at the end of 1983 - at 12,900,000. This process has been assisted by:

1. A system of mortgage interest relief against income tax, which makes investment in housing a most attractive proposition.
2. Exemption of a house, if it is the owner's main residence, from Capital Gains Tax.
3. The steady growth in capital values of houses.
4. The restrictions placed upon building societies from lending money for purposes other than home-buying, coupled with their success in being popular channels for private savings.
5. The encouragement of council house sales to tenants at generous discounts.
6. The encouragement of sale of derelict land, particularly from the public sector in urban areas, to assist housebuilders wishing to construct cheaper housing.
7. The encouragement of a range of low-cost, low-start mortgage schemes and part equity schemes for house-buyers.

What is being done to extend employee shareholdings?

The Government is extending the number of employee shareholdings by:

1. The Budget reliefs for new employee shareholding schemes.
2. Encouraging management buy-outs in the public and private sectors. The National Freight Corporation was a singular success, where the managers and lorry drivers bought up their business and transformed it and are now sitting on profits of over 400 per cent on their stake money.
3. Encouraging employee shareholdings when businesses are denationalised through employee preference schemes.
4. The range of measures to help small business, and the Enterprise Allowance to encourage people to set up on their own.
5. Some moves towards fiscal neutrality to make institutionalised saving less attractive, particularly with the abolition of life assurance premium relief.



17 May 1984

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- c. Encouraging more private sector owners. The best way of encouraging home-ownership is the encouragement of a low interest rate policy through tight control of public borrowing, in accordance with the general economic strategy. Tony Crosland remarked as Housing Minister that he eventually discovered that the Chancellor ran housing policy! Options here include:
- i. A renewed drive to sell the vacant land owned by local councils, nationalised industries and health authorities, particularly in urban areas, in a concerted effort to get more, cheaper, developable land available for the construction of low-cost homes. Such a drive in docklands has already led to the construction of homes in the £25-35,000 range, which brings them within the reach of many people who never dreamt they could afford a home anywhere near the centre of London. NHS vacant residential accommodation could also be sold.
  - ii. A renewed drive to develop homesteading schemes to move people in to derelict property, often owned by councils, which they can then rehabilitate - in return for favourable terms on rent - with an option to purchase. There are far too many tinned up terrace houses that should be used.
  - iii. Encouragement of building and improvement for sale by local authorities. This can involve

using public wasteland through partnership schemes.

- iv. Careful drafting of the building society legislation to enable them to strengthen the services they provide in the housing market, without allowing them powers to lend money for industrial purposes.
- v. Allocating more money to the Housing Corporation to facilitate do-it-yourself shared ownership.

What can be done to encourage employee shareholdings more fully?

Continuing the policies to reward enterprise, so that people can make money by owning shares in a profitable business is the best way of proceeding. Lower taxes are the main necessity, coupled with a stable economy so that equity values are not subject to violent downward adjustments.

Some of the options before the Government are:

1. Making the Enterprise Allowance scheme demand-determined at the expense of some of the most costly job-creation programmes. (Under consideration.)
2. Continuing to offer a wide range of incentives to employees to buy shares in denationalised concerns. The three main techniques are the free offer of shares to all employees; the offer of additional shares at a discount to the public price, with some limitations on the number; and the pink-form preferential applications for shares in the issue at the public price. All these three techniques have worked in the past, and should continue to be a predominant feature of those denationalisations not being handled by management buy-out. (See DTI paper.)
3. A revised fiscal regime for all savings (see below) to make direct ownership at least as attractive as, and preferably more attractive than, institutional ownership.

Why is wealth largely held through institutions?

Institutional ownership of company securities has built up rapidly over the last 20 years. There are now estimated to be only half a million independent private shareholders in British companies in the UK, even though there are 2 million people with private wealth holdings, apart from their house and their pension fund, in excess of £10,000.

The aggregate figures for the personal sector wealth holdings in September 1983 were:

Insurance and pension fund investments	£175 billion
Building society shares and deposits	£75 billion
Company securities	£55 billion
National Savings and gilts	£45 billion
Others	£40 billion
<b>TOTAL</b>	<b>£455 billion</b>
Borrowings	£50 billion
<b>NET ASSETS</b>	<b>£405 billion</b>
Houses (end 1982)	£350 billion
Mortgages	£90 billion
<b>NET HOUSING ASSETS</b>	<b>£260 billion</b>
<b><u>TOTAL NET ASSETS</u></b>	<b>£665 billion</b>

(CSO figures rounded)

£405 billion of non-housing assets is shared roughly between 40 million people over the age of 18. This is an average of £10,000 per head. This stock of wealth is being added to by regular saving. In 1982, there was £20 billion of personal saving; in 1983, £17 billion.

Any cursory analysis of the figures demonstrates that a very high proportion is either held cautiously or through institutional hands. The odd thousand pounds or two held by most people should not be held in the form of shareholdings. Most people want a prudential balance, and a sensible place to keep that is in a building society or a bank deposit account, or with National Savings. This will remain true.

Until the last Budget, if I took out an insurance policy I received tax relief on the premiums. And even now if I take one out as a higher-rate taxpayer, the taxation of the

LASAAZ

income on the investment is sheltered by the 37.5 per cent insurance company tax rate, compared with the 60 per cent if paying top rate tax. If I buy a house, the interest on the mortgage can be offset against tax, and the asset is free of capital gains on disposal. If I wish to save for my retirement through an institutionalised pension fund, I receive tax relief on the contribution, on the investment and capital gain within the fund, and on the lump sum which I can get in part payment on retirement. If I invest up to a given sum in National Savings, SAYE and a Girobank account, I get tax relief on the interest paid. And if I buy a Government security and hold it for longer than 1 year, I am exempted from Capital Gains Tax. If, however, I choose to go out into the marketplace and buy an ordinary share in a British company, I get no tax relief whatsoever.

There are two ways of approaching this difficulty. One way is to give some limited tax relief to encourage direct investment in shares along the lines of the Loi Monory in France. The alternative way is to tackle the problem of the incentives to institutional saving. The Government has started out on this latter course to simplify tax. It is assumed, for the purposes of this paper, that this is the right route and it is the one that the Government will want to pursue.

The big areas to examine are pensions and life insurance.

Pensions. The average member of the average pension scheme has £11,000 of assets about which he knows little. Norman Fowler's Inquiry into pensions is making progress in finding ways in which people can be sure that they will get a realistic transfer value from their pension scheme when they leave; and in finding ways in which those individuals who wish to be more personally associated with this part of their wealth can do so. Policies to force more disclosure of what the individual is worth, to force better transfer values, and to give a wider range of options to those joining companies or moving companies or setting up in business on their own, are all methods for moving towards a world in which individuals understand this enormous wealth that they own and have more direct control over it.

Another option is to consider breaking some of the fiscal advantages enjoyed by the pension funds.

Insurance company investments. The removal of life assurance premium relief is likely to make a considerable impact on the number of new insurance policies sold. Many of these policies had become an elaborate method for capturing tax relief for

investment schemes, whereas the original intention was to encourage life cover. The market will now concentrate on selling pension schemes instead of life assurance-related savings.

Making markets more accessible to individuals. In addition to the fiscal advantages of institutional ownership, to the average man the stock market is a remote rich-man's casino, and he would not know how to go about buying a share even if he wanted to.

He is put off by:

- (a) The absence of retail outlets in the average high street - the building societies only grew like Topsy as and when they were able to install attractive looking branches in every town and shopping high street in the land.
- (b) The high costs of dealing - 1 per cent contract stamp, coupled with 1.65 per cent stockbroker's commission and a 3-4 per cent jobber's spread.
- (c) Attitudes of much of the financial community who have not been actively encouraging the small man to use their services.
- (d) Fears of losses or of being caught up with wrong advice.

Many of these problems can and should be tackled by the impending revolution in the City. One of the changes that should take place is the development of retail branches transacting share business. The building societies on an agency basis, the Post Offices, the major clearing banks, even some of the large chain stores all have the outlets which could offer this facility. It may be that firms like the new Charterhouse-Hambro merger will take the lead. Another developing route will be purchase through TV/home computer telephone-linked services direct to your home.

Dealing costs have been reduced by the halving of Stamp Duty in the Budget. As the market moves towards a new trading system, based on an amalgamation of jobbing and broking, the spreads and commission costs of dealing particularly in the larger shares should come down quite sharply. Whether they will do so for the small man or not depends on whether "execution houses" spread in the UK as they have in the US, offering a cheap, no-frills business to all comers. It is desirable that they should.

Nothing succeeds like success. If people do start buying shares and they go up in value, they will become shareholders for life. Governments cannot legislate for rising markets, but they can try to pursue economic policies that favour profits and dividend growth (as with the corporate tax changes) and offer a stable environment for business. As the veils are removed on pension fund values and assets, more and more people will come to appreciate that their futures are already ventured in Stock Exchange securities, and some will want more direct control or choice over adviser.

Much of this is a chicken-and-egg question. Many people in the City say of course they would do the business if the business were there to do; whilst others object that the business will not be there to do unless they show they are willing and happy to do it in a friendly and efficient way. The Government should give every encouragement to the development of a retail Stock Exchange, and should certainly eschew regulation of the market in a way which bolsters the role of the big institutions at the expense of the small man. It can encourage full disclosure of dealing, oppose cartels, and show people what they own through its pension, insurance and building society policies and legislation.

#### CONCLUSION

Wider property-ownership is central to the philosophy of this Government, is politically popular, and is difficult to reverse.

It can be given renewed impetus by:

- (a) A further stimulus to council house sales.
- (b) Policies to associate people with their pension fund wealth more directly.
- (c) Fiscal neutrality between savings mechanisms.
- (d) Using the changing shape of the City to expose individual wealth, and regulating and legislating in a way which encourages individuals to participate.
- (e) The denationalisation programme. BT is an especial opportunity to widen share-ownership in view of its size and the publicity planned for it.



What action has the Government taken to increase home-ownership?

The Government has been successful in encouraging more people to own their own home. In Great Britain in December 1961, there were 7,085,000 privately-owned homes. This figure had risen to 9,598,000 by December 1971; to 11,430,000 by April 1979; and now stands - at the end of 1983 - at 12,900,000. This process has been assisted by:

1. A system of mortgage interest relief against income tax, which makes investment in housing a most attractive proposition.
2. Exemption of a house, if it is the owner's main residence, from Capital Gains Tax.
3. The steady growth in capital values of houses.
4. The restrictions placed upon building societies from lending money for purposes other than home-buying, coupled with their success in being popular channels for private savings.
5. The encouragement of council house sales to tenants at generous discounts.
6. The encouragement of sale of derelict land, particularly from the public sector in urban areas, to assist housebuilders wishing to construct cheaper housing.
7. The encouragement of a range of low-cost, low-start mortgage schemes and part equity schemes for house-buyers.

What is being done to extend employee shareholdings?

The Government is extending the number of employee shareholdings by:

1. The Budget reliefs for new employee shareholding schemes.
2. Encouraging management buy-outs in the public and private sectors. The National Freight Corporation was a singular success, where the managers and lorry drivers bought up their business and transformed it and are now sitting on profits of over 400 per cent on their stake money.
3. Encouraging employee shareholdings when businesses are denationalised through employee preference schemes.
4. The range of measures to help small business, and the Enterprise Allowance to encourage people to set up on their own.
5. Some moves towards fiscal neutrality to make institutionalised saving less attractive, particularly with the abolition of life assurance premium relief.



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A

## EMPLOYEE SHARE OWNERSHIP IN PRIVATISATION

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Special arrangements have been made to encourage employee participation in all privatisations where a majority shareholding has been sold by stockmarket flotation. Annex A gives brief details for each relevant privatisation.

### Typical Pattern of Arrangements

2. Arrangements for employees typically include:
  - a) an offer of free shares;
  - b) an offer of matching shares given free in proportion to shares purchased by the employee;
  - c) a special application form which gives the employee priority in the allocation of any shares that he may apply for in addition to the free and matching offers.
  
3. Guidelines limiting the value of the elements of an offer were laid down in 1980 as £50 maximum free offer, and overall cost of free and matching offers not to exceed an absolute maximum 5% of gross proceeds. The Guidelines have been adhered to - allowing for a rise in the free offer broadly in line with inflation.
  
4. Free and matching shares allocated to employees in privatisations are placed in trust for a minimum of two years and may not be sold or pledged as security during that period except in case of injury, disability, redundancy or retirement. Beyond this there is a further period up to seven years from allocation when the shares may be traded at the cost of losing some or all of their tax exemption.

### Exceptions to the Typical Pattern

5. British Petroleum, where there was no free offer. The Cable and Wireless privatisation where matching shares were to be made available over a period as part of the company's employee profit sharing scheme. The British Telecom scheme, which will also include a discount on shares applied for in addition to the free and matching offers. The National Freight Corporation was an employee/management buy-out.



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6. The details of the British Telecom arrangements as announced by the Secretary of State in the House of Commons on 2 May are:

' Employees who work at least 16 hours per week for BT and who have been in continuous employment with BT from April 2 1984 until a date shortly before the flotation will benefit from a special scheme. They will be offered about £70 worth of free shares and for every share purchased by the employee the Government will provide a further two free shares up to a maximum of £200 of free shares for £100 of purchased shares. Employees will therefore have the opportunity to acquire about £370 worth of shares for an investment of about £100. As in past sales these shares will have to be vested in a trust for a minimum of two years.

In addition a discount of 10 per cent off the public offer price will be offered to all employees at the time of flotation on purchases of up to £2,000 worth of shares provided that they are held for a specific period. '

Arrangements during Subsequent Sale of any Residual Government Shareholding

7. No free or matching shares have been provided by the Government but special application forms have been distributed giving priority in allocation.

ENCOURAGEMENT OF SMALL INVESTORS IN PRIVATISATIONS

8. Arrangements to encourage applications by small investors (details in Annex B) have included:

- a) wide advertisement of sale and wide distribution of prospectus outside London;
- b) small minimum allotment size;
- c) preferential treatment in allotment by scaling down large applications more than small in oversubscribed flotations or by weighting any ballot in favour of small applications;
- d) opportunity to apply at the striking price in tender offers (thus helping inexperienced investors by removing the need for them to judge a price to bid).



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Exceptional arrangements

9. Britoil, a loyalty bonus with free shares in proportion to those held for a minimum period after the sale. This represents a discount, delayed in time, on the price of the shares, with a view to stimulating demand. British Telecom, special incentives to telephone subscribers (eg vouchers which can be offset against subsequent telephone bills). The British Telecom flotation is by far the largest privatisation.

SUCCESS OF POLICIES

10. Annex A shows the percentage of employees participating in privatisation issues and the number of shares allotted to them. Considerable success can be claimed with more than 90% participation in several issues. The intention is to encourage long term investment as illustrated by the minimum period for which free shares are held in trust.

11. The various measures to encourage small investor participation have also been successful although here it is less easy to claim that investment has been motivated by long term considerations. Where an issue is successful in the sense of oversubscribed at the issue price it is inevitable that some shareholders will sell out when dealings commence. Institutions will be anxious to buy if the allotment has been biased against them. A large reduction in the number of shareholders after the issue has been characteristic of the oversubscribed flotations as the table below illustrates:

	<u>Size of Offer</u> (£m)	<u>Times sub-scribed</u>	<u>Issue Price</u> (p)	<u>Price on First Day</u> (p)	<u>Initial No. of Allotments</u> (K)	<u>No of Share-holders (Nov 83)</u> (K)
British Aerospace ..	150	3.5	150	169	158	26.2
Cable and Wireless ...	224	5.6	168	197	150	26.1
Amersham Int. ....	71	24.6	142	190	63	7.7
A B Ports ...	22	33.7	112	138	37	8.3

The number of shareholders apparently fell by over 80% in the first year in the British Aerospace and Cable and Wireless sales.



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12. It is impossible to distinguish profit taking by the more professional 'stags' and the 'ordinary' small investor. The tender method is designed to reduce the scope for staggings (but will not remove it when small applications are allowed at the striking price). But the method is more complicated and in that respect may be less attractive to small investors. Efforts to encourage wider participation by favouring small applications will encourage stags to apply for a large number of small applications (there is no practicable cost effective way of preventing multiple applications).

13. Stagging is of course in no way peculiar to Government privatisations.

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## EMPLOYEE SHARE SCHEMES IN PRIVATISATIONS

## A. Summary of Key Figures

Company (Date of Sale)	Maximum Value* of Incentives Per Employee	Percentage+ of workforce participating	Percentage+ of Issued Share Capital Held
BP (October 1979)	£500	43	0.25
British Aerospace (February 1981)	£499	74	3.6
Cable and Wireless (October 1981)	£300	99	1.4
Amersham International (February 1982)	£550	99	3.7
National Freight Company (February 1982)	£200 interest free loan for share purchase	23 <sup>φ</sup>	82.5
Britoil (November 1982)	£458	72	0.1
Associated British Ports (February 1983)	£311	91	4.3
British Telecom (announced arrangements)	£470	N/A	N/A

Notes:

\* Maximum value of shares available free to an employee under both free and matching offers plus value of any other financial incentive.

+ Initially following sale.

φ Percentage of employees and pensioners involved.

## EMPLOYEE SHARE SCHEMES IN PRIVATISATIONS

## B. Outline of Schemes\*

Company (Date of Sale)	Free † Offer	Matching <sup>o</sup> Offer (Free: bought)	Other Financial Incentives
BP (October 1979)	None	Max £500 (1:1)	None
British Aerospace (February 1981)	£49.50	Max £450 (1:1)	None
Cable and Wireless (October 1981)	£50.00	£250 <sup>‡</sup> (1:1)	None
Amersham International (February 1982)	£50.00	Max £500 (1:1)	None
National Freight Company (February 1982)	(Management/Employee Buyout)		£200 interest free loans
Britoil (November 1982)	£58.50	Max £400 (1:1)	None
Associated British Ports (February 1983)	£59.33	Max £252 (1:1)	None
British Telecom (announced arrangements)	£70.00	Max £200 (2:1)	10% discount on up to £2000 of further shares

Notes:

- \* All schemes include preferential application forms for further shares which give employees priority in allocation.
- ‡ Value of shares at time of privatisation which HMG was to make available over the life of the Company's profit sharing scheme.
- † At offer price.
- o By HMG or company Trust.



## EMPLOYEE SHARE SCHEMES IN PRIVATISATIONS

## C. Take up of Offers (per cent eligible employees)

Company (Date of Sale)	Free Offer	Matching Offer	Preferential Application Forms
BP (October 1979)	N/A	50	43
British Aerospace* (February 1981)	89	41	1.6
Cable and Wireless* (October 1981)	99	99	25
Amersham International* (February 1982)	99	80	40
National Freight Company (February 1982)	(23% of employees and pensioners participated in the Management/Employee Buyout) <sup>+</sup>		
Britoil (November 1982)	92	62	not available
Associated British Ports (February 1983)	90	38	2.9
British Telecom (announced arrangements)	N/A	N/A	N/A

Notes:

\* Average employee holding estimated as: BAe £161, Cable and Wireless £585, Amersham International £1,680.

+ Directors, Employees, Employees, Immediate families, Pensioners formerly employed by the company, their wives and or widows/widowers were all eligible.

EMPLOYEE SHARE SCHEMES IN PRIVATISATIONS  
D. Number and Value of Shares Involved

Company (Date of Sale)	Number of Shares Applied For	Number of Shares Allocated	% share* Capital Held
BP (October 1979)	Not available	Not available	0.25
British Aerospace (February 1981)	10,612,008	7,072,300	3.6
Cable and Wireless (October 1981)	3,785,833	3,785,833	1.4
Amersham International (February 1982)	2,014,140	1,828,290	3.7
National Freight Company (February 1982)	6,187,500	6,187,500	32.5
Britoil (November 1982)	580,610	580,610	0.1
Associated British Ports (February 1983)	1,856,875	1,736,965	4.3
British Telecom (announced arrangements)	N/A	N/A	N/A

Notes:

- \* Issued share capital held by employees immediately following sale.

## ARRANGEMENTS FOR SMALL INVESTORS

Company (Date of Issue)	Distribution* of Prospectus	Preference in Allocation	Any other measures
BP (October 1979)	Post Offices, Shareholders, Clearing Banks, Co-op Bank, TSB's	Yes	-
British Aerospace (February 1981)	Main Branches Lloyds, Clydesdale Bank, Bank of Ireland	Yes	-
Cable and Wireless (October 1981)	Main Branches Natwest, Ulster Bank, Hong Kong	Yes	-
Amersham International (February 1982)	Regional Stock Exchanges	Yes	-
Britoil (November 1982)	Post Offices, Clearing Banks, TSB's	Offer by Tender	Striking price Applications 1 for 10 loyalty bonus (after 3 years)
Associated British Ports (February 1983)	Lloyds Branches, Bank of Ireland	No	-
BP (September 1983) <sup>†</sup>	Main Branches of several UK Banks, Main Post Offices	Offer by Tender	Striking price Applicat <sup>ions</sup>
Cable and Wireless (December 1983) <sup>†</sup>	Main Branches of several UK Banks, Main Post Offices	Offer by Tender	Striking price Applicat <sup>ions</sup>
Associated British Ports (April 1984) <sup>†</sup>	All Branches of Lloyds Bank, Bank of Ireland	Offer by Tender	Striking price Applicat <sup>ions</sup>

Notes

\* Other than to Bank of England, Merchant Banks, Underwriters, Brokers and Receiving Banks.

+ Sales of residual holdings



STEPS TO PROMOTE WIDER SHARE OWNERSHIP

A 1981 survey by the Stock Exchange, the latest in a 6-year interval series shows:

% Distribution of Shareholdings

	<u>1963</u>	<u>1969</u>	<u>1975</u>	<u>1981</u>
Persons .....	54.0	47.4	37.5	28.2
Financial institutions ..	30.3	35.9	48.0	57.9
of which:				
Insurance Cos. ....	10.0	12.2	15.9	20.5
Pension Funds .....	6.4	9.0	16.8	26.7
Unit Trusts .....	1.3	2.9	4.1	3.6
Investment Trusts ....	11.3	10.1	10.5	6.8

The long run trend towards increasing indirect investment through financial institutions can be explained mainly by the growth of occupational pension schemes and the tax advantages they and life offices have been able to offer. The economic climate of the 1970s and 80s may have encouraged saving through deposit accepting institutions, especially building societies linked with home ownership.

2. The abolition of the investment income surcharge and of tax relief on life policy premia is likely to discourage saving through insurance-based investments and encourage direct share ownership.

3. The Business Expansion Scheme has the effect of encouraging wider share ownership although its primary purpose is to raise capital for unquoted companies. It gives tax relief of up to £40,000 per annum at the top marginal rate available to individuals who subscribe for new equity shares in qualifying unquoted trading companies. Recent figures show that some £44m has been raised by 29 of the 34 funds that have so far been approved under the scheme. The remaining funds plan to raise at least a further £8m. Best estimates suggest that around 80% - say £35m - would have been invested by 5 April 1984. And to this must be added amounts subscribed on a direct basis - not through a fund - under the scheme though these are thought to be small.



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4. In FSC Division's view the main barrier to wider share ownership is educational. There is no difficulty in getting advice from brokers or banks and no ground for the view that share investment is too complex for the ordinary saver. The public's perceptions of risk may be improved by the measures that may be introduced to implement Gower. But the changes afoot in the Stock Exchange are not thought by FSC to have much bearing on wider share ownership. Indeed commissions on small deals could rise after the abolition of the minimum charges; this was a short term response in New York when they abolished minimum commissions though in the longrun the emergence of new 'no frills' brokers may have offset this effect.

5. There may be a growing appreciation of the benefits of wider share ownership. But it seems unlikely that there will be any sudden or sharp reversal in the trends set out in paragraph 1 above.



C

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SHARE OPTIONS

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Share options have been tackled by two previous items of legislation - in 1980 and 1982 - and by one, the most important, currently in the Finance Bill. The proposed legislation is aimed particularly at Directors and key employees. Subject to certain limits and conditions, it will remove tax from unrealised gains on the exercise of share options leaving just capital gains tax to be paid at the time of eventual disposal of the shares. This is expected to have the following beneficial effects:

- enable small and growing companies to attract key personnel without the need to pay high salaries;
- give ailing companies the chance to attract new talent looking for rewards in terms of longer term growth;
- help large and established companies retain (Particularly against foreign competition) and motivate highly valued executives;
- give employed individuals a chance of accumulating wealth, perhaps sufficient to enable them to start their own enterprise;
- encourage employee involvement and wider share ownership.

2. The 1980 legislation is of a different character. It links share options to SAYE savings arrangements and is aimed at employees within a company generally. It is thus principally concerned with motivation and encouraging wider share ownership. Some 292 schemes have been approved. Latest figures - April 1983 - show that shares to the value of around £350m have been granted under the 1980 scheme, and it is reckoned that some 150,000 employees have participated. This legislation complements that of the 1978 profit sharing schemes, the limits of which have been raised by the Government, and which also encourages wider share ownership. Finally, the 1982 legislation introduced a limited relief for non-approved option holders, allowing a spread of 3 years for payment of the tax chargeable on exercise of an option. This period is to be increased to 5 years, but only for schemes involving options granted before 6 April 1984 (later schemes will be expected to take advantage of the arrangements described in paragraph 1 above).

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3. The Department has been pressing for some years for an executive-type share option scheme. There was originally some discussion as to whether the rules ought to limit participation to unquoted companies but it was eventually decided that the scheme should be available widely, and Finance Bill proposals largely reflect what the Department asked for. There do, however, remain one or two points of difficulty. For example the rules as currently proposed would exclude from benefit of relief any person who has or would acquire a 'material' interest - more than 5% of the ordinary share capital - in the company. Mr Trippier, in particular, considers this too restrictive for the smaller company and has written to Mr Moore on the subject.

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10 DOWNING STREET

From the Private Secretary

Prime Minister

For Industry and Employment  
Series next week we have  
Commissioned 3 papers

- 1 (a) Employment trends
  - 1 (b) Employment policies
- } To be circulated by Tom King
2. Export promotion
- } To be circulated by Norman Tiebbit
3. Wider Ownership - produced by the Policy Unit

Agree No 3 should be circulated  
to manas? I hope 1 & 2 will  
not also be round before the weekend

AT 17/5





DEPARTMENT OF EDUCATION AND SCIENCE  
 ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH  
 TELEPHONE 01-928 9222  
 FROM THE SECRETARY OF STATE

*Industry Seminar file*

CH/EX/REGUE	
REC.	17 MAY 1984
ACTION	CST [to deal]
COPIES TO	

17 May 1984

*Dear Nigel,*

INDUSTRIAL SPONSORSHIP OF INDIVIDUAL STUDENTS

I have been reviewing the potential for increasing the sponsorship of individual students by industry. (The subject has also come up in the context of my discussions with colleagues, including Peter Rees, on the switch to engineering and technology, for which officials have recently produced a report.)

By "sponsorship" I here mean the payment by firms of financial bursaries to students during the academic portion of their courses: such payments are additional to mandatory maintenance awards, within a specified limit for 1984/85 of £980 per annum (consisting of £580 for scholarships or bursaries: £400 (aggregable) for all other types of income). Income from bursaries above £980 leads to maintenance awards being abated pound for pound.

We know from a recent survey that the majority of sponsored undergraduate students are on engineering courses. About one quarter of the engineering under-graduates at UK universities and polytechnics is said to be sponsored and about 10,000 undergraduates in all across all academic disciplines. Within engineering, sponsorship concentrates on electronic and mechanical engineering in which many are advocating an increase in graduate output and where, as I mentioned above, there is current inter-departmental consideration of the proposed switch within agreed student numbers. The attached article describing the recent research in more detail offers helpful background.

/The more students

The Rt Hon Nigel Lawson MP  
 Chancellor of the Exchequer  
 Treasury  
 Parliament Street  
 LONDON SW1P 3AG

The more that students are encouraged to look to the private sector for part of their income - particularly if this improves course choices - the better. And sponsorship can be a source of signals to students when their choice of course is made. If students can see that a course in, for example, electronics engineering is likely to bring with it a good chance of financial assistance during student years, then their propensity to opt for that type of course is likely to be so much the greater. Increased sponsorship will also improve the ability of individual firms to select good quality future employees. These factors combined will make the benefit to our economy of well motivated students pursuing the right types of academic disciplines that much the greater.

To bring about such an increase I believe that two changes are necessary and should be introduced as soon as possible:-

- i. the current level of "disregard" of other income before student awards are abated should be raised considerably in relation to sponsorship income. I suggest that students should be able to 'disregard' £1200 in respect of sponsorship/bursaries, giving a total disregard of £1600. The awards cost of this would be negligible as existing sponsorship is almost wholly contained within the £980 ceiling. There could be some small implications for tax revenue since I gather that sponsorship payments to students pursuing courses directly related to the company's area of business operation are normally tax allowable;
- ii. the 'business' of a company should be seen as covering the range of skills and capacities (eg financial, marketing) that it needs and possesses to hold its competitive edge. This would enable the range of courses in respect of which companies may claim allowance against tax to be widened to allow, for example, sponsorship within the engineering and other relevant disciplines by any company rather than just those operating within the industry itself. Thus the sponsorship 'market' would be able to operate freely - and make it easier for others to see by its operation where industry's needs really lie.

The tax incentive to individual companies to offer sponsorship should also, of course, be maintained. Companies should see that it is well worth while to encourage and develop the bright young graduates that the economy will need in the future.

/I would now

I would now welcome your reaction, and those of others to whom this letter is copied, to these suggestions. The Prime Minister has also taken an interest in the subject and we shall no doubt want to report the outcome to her in due course.

Copies of this letter go to Norman Tebbit, Tom King and David Young.

*Ernest - King*

# Students and industrial sponsorship

Richard Pearson\*

*In certain specialized areas the role of industry in supporting British undergraduates is significant. It can have unexpected consequences.*

STUDENT finance has been high on the debating agenda for a number of years. The value of the means-tested grant for British undergraduates is currently £1,660 per annum plus fees although few students receive the full amount because of the means test, with many parents not making their full contribution. Although the real value of the grant was fairly stable throughout the 1970s, it has fallen by about 10 per cent in the past couple of years (Fig. 1). Even so, the British undergraduate is considered better off than his contemporary in Japan, who has to take out a loan, while students in most of Europe and North America have to rely on a combination of loans (often at low rates of interest) and grants, supplemented in some cases by scholarships. In the United Kingdom, the current pressure to reduce public expenditure means that loan

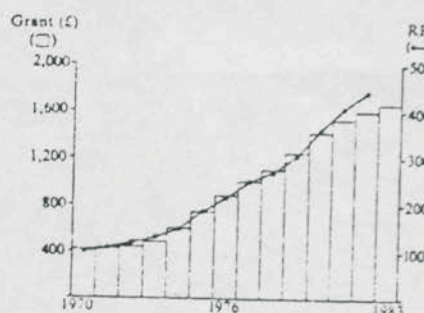


Fig. 1 The "real" value of the student grant in Britain.

schemes could well be reconsidered in the next few years, although opponents argue that loans lead to only limited cost savings, while seriously affecting certain groups, such as women and those from poorer homes.

One source of finance rarely considered in this debate is industrial sponsorship. The full extent, in terms of money spent and numbers involved, is unknown. Most sponsorship is, however, concentrated in the area of engineering, with a smaller involvement in some of the pure sciences and in business and related studies. A recent report<sup>1</sup> from the Institute of Manpower Studies has shown that more than 2,200 (one in four) final-year engineering students were sponsored in 1983, which suggests the total number of sponsored students in higher education is probably over 10,000. Total expenditure by industry is likely to be several million

pounds each year.

Sponsorship can take many forms. A student may be a salaried member of the staff of the sponsoring organization, he or she may receive a bursary worth up to £915 a year on top of the mandatory grant, or may have some mix of mandatory grant, bursary and salary when working in vacations or on periods of industrial work if on a sandwich course.

Employers sponsor students for a variety of reasons. For some it is a form of patronage, helping existing employees, often bright craftsmen and technicians, to advance their careers. For most, however, it is a means of guaranteeing a supply of well-trained recruits in the future, particularly in the "shortage" subjects of electronic and mechanical engineering. Sponsorship is also seen as providing an opportunity to make a detailed assessment of an individual's capabilities, as a means of influencing students' choice of subject and institution of study, as a way of attracting high quality school leavers, and to improve collaboration between industry and higher education. There is of course a financial cost involved, up to £4,000 per student over the duration of the course, and there is often the need to provide training and work experience.

In the past, some employers have sought legally to bind the student to the company for a period of years after graduation but this now happens only in the armed forces where the undergraduate becomes an employee. In recent years, 50–80 per cent of sponsored graduates have joined their sponsoring organizations, with each side rejecting the other in roughly similar proportions; some employers are, however, able to retain all those they want. Most students are sponsored from the start of their course, with the majority recruited directly from school, often only from local areas. More than half the employers limit their sponsorship students to particular universities, and in a few cases to particular polytechnics.

Among the 2,200 final-year engineering graduates sponsored in 1983, most were to be found in mechanical (38 per cent) and electrical/electronic (35 per cent) engineering, and relatively few in civil or chemical engineering. While two-thirds were in universities, the proportions of sponsored students, when compared on a subject basis, were similar in the universities and the polytechnics. Overall, 35 per cent of mechanical and 28 per cent of electrical/electronic engineers were sponsored (Fig.

2). It is interesting that it was the largest university/polytechnic departments (with over 50 final year students) that had the highest level of sponsorship and the middle-sized departments (25–49 final year students) that had the lowest.

In the past five years, more than 250 employers have been involved in sponsorship, some with only an occasional student, others with a regular intake of 50 to 100 a year. The number of companies sponsoring students has fallen as training budgets and recruitment levels have been cut back because of the recession. Nevertheless, the number of places on offer has grown slightly, with the number of places for electronic engineers increasing dramatically in response to expected shortages in future years.

Looking to the future, most employers expect to continue with their current sponsorship policies, while one in five expect to increase and one in seven to decrease their level of sponsorship. In the case of electronics, sponsorship has been rising rapidly. As a result, perhaps half of the graduates expecting to enter the labour

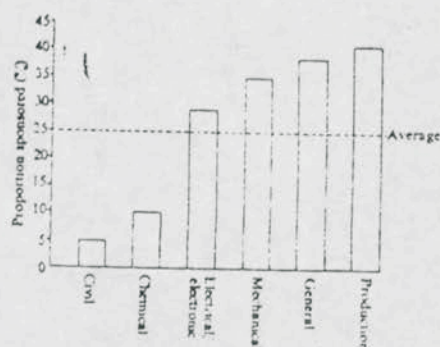


Fig. 2 Proportion of final-year engineering students at UK universities and polytechnics sponsored by an employer during 1983.

market in the next few years will already be notionally committed to a particular employer. While not all will join that employer, it seems that the "free" market of electronics engineering graduates seeking employment will be even smaller than the already inadequate supply than has been forecast. This will compound the future recruitment difficulties of all types of employers, although the sustained high level of sponsorship may have an influence on subject and career choice by would-be students.

\*Institute of Manpower Studies, University of Sussex, Falmer, Brighton BN1 9RL, U.K.

1. Gordon, A., Hill, R. & Pearson, R. *Undergraduate Sponsorship: Implications for the Labour Market* (Interim Report) (IMS, 1983).



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1-19 VICTORIA STREET  
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5422

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Secretary of State for Trade and Industry

15 May 1984

John Redwood Esq  
Policy Unit  
10 Downing Street  
London SW1

*Dear John,*

WIDER WEALTH OWNERSHIP

I enclose, as requested, a paper prepared by officials in this Department on wider wealth ownership. It covers privatisation issues; steps to promote wider share ownership; and share option schemes. My Secretary of State, who is abroad, has not had an opportunity to see the paper.

2 Callum McCarthy has asked me to apologise for the slight delay in putting this forward.

*Yours sincerely,  
Ruth Thompson*

RUTH THOMPSON  
Private Secretary

JH2AKW

CONFIDENTIAL



cc DW Phillips  
Prime Minister ②  
To note terms of reference  
and scope of reviews

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

AT  
15/5

Andrew Turnbull Esq  
Private Secretary  
10 Downing Street

15 May 1984

Dear Andrew,

AT

SOCIAL SECURITY REVIEWS: MEMBERSHIP

Steve Godber wrote to you on Thursday 10 May to tell you that Secretary of State was ready to announce further details on the Reviews. A written question has been put down by James Couchman, which will be answered tomorrow. I attach copies of the three consultative documents which will be issued. There will also be a press briefing tomorrow afternoon.

I am copying this letter to David Peretz (Chancellor's Office), John Gieve (Chief Secretary's Office), John Ballard (Department of Environment), David Normington (Department of Employment), Elizabeth Hodgkinson (Department of Education and Science), Derek Hill (Northern Ireland Office), John Graham (Scottish Office), Colin Jones (Welsh Office), David Morris (Lord Privy Seal's Office), Janet Lewis-Jones (Lord President's Office), Murdo MacLean (Chief Whip's Office) and Richard Hatfield (Sir Robert Armstrong's Office).

Yours es,

Colin

C A H Phillips  
Private Secretary

CONFIDENTIAL

## HOUSING BENEFIT REVIEW

### REQUEST FOR EVIDENCE

#### ~~CONSULTATION DOCUMENT~~

#### Introduction

1. This note sets out the background to the review of housing benefit and the arrangements for submitting evidence.
2. The Secretary of State for Social Services has established a review of the housing benefit scheme under the independent chairmanship of Mr Jeremy Rowe CBE. Details of the review team are annexed. The terms of reference are:

"To examine the structure and scope of the scheme to ensure that it is as simple as possible, and that help is concentrated on those most in need; and to improve its administration by local authorities."

3. The review is one of four reviews which together constitute a substantial reexamination of the social security system to see if better use can be made of resources and staff within the present overall level of social security expenditure.

#### Background to the review

4. The present housing benefit scheme, which brought together the assistance with rent and rates previously provided through supplementary benefit and through rebates and allowances made by local authorities was fully introduced in 1983. Announcing the setting up of the review on 6 February, the Secretary of State said:

".... the enormous growth of housing benefit expenditure and the income levels at which it is paid require further consideration. Equally the continuing difficulties which some local authorities are still experiencing in handling claims and payments is causing anxiety for individual families.

"The Government feels, therefore, a review of the scheme and its operation is required."

#### The issues under review

5. The review team would welcome evidence on all aspects of housing benefit and in particular the three broad areas set out in the terms of reference:

\* The scope of housing benefit

This raises questions of why separate assistance with rent and rates is required, who should be eligible for

assistance given the objective of concentrating help on those most in need and which components of these costs should be covered.

\* The structure of housing benefit

An important objective is to simplify the scheme. This raises questions of how the level of benefit is determined in individual cases. For example, there are the current differences in treatment between people on supplementary benefit and others; and the additional provision of housing benefit supplement. A further question is how sensitive should benefits be to individual circumstances, for example, through the operation of means tests and benefit tapers.

\* The administration of housing benefit

A prime concern here is whether the system for assessing, paying and reviewing housing benefit can be improved. Other issues include the extent of central regulation and local discretion, financial control and whether arrangements for accountability and monitoring are adequate.

6. The review is confined to housing benefit and is not concerned therefore with general housing policy issues such as supply of and demand for different patterns of housing or with income tax relief on mortgage interest.

Submission of evidence

7. The review team would welcome written evidence in response to this paper by 31 July 1984. In the light of the evidence received, it will decide how best to follow this up with requests for further written evidence or oral evidence. Where comments can be submitted earlier than 31 July this will provide greater scope for more detailed consultation through further written evidence or through taking oral evidence.

8. The review will not be able to deal with the position of individual claimants.

9. Evidence should be sent to:

The Secretary  
Housing Benefit Review  
Room 440  
New Court  
Carey Street  
LONDON WC2A 2LS

Tel: 01-831 6111 Ext 2618



HOUSING BENEFIT REVIEW TEAM

Chairman

Mr Jeremy Rowe CBE, Chairman of the Peterborough Development Corporation and Deputy Chairman of Abbey National Building Society.

Members

Mr Alan Blakemore CBE, formerly Chief Executive of London Borough of Croydon.

Mrs Rhea Martin, Lecturer in Law at the Hatfield Polytechnic and a Vice Chairman of the National Association of Citizens Advice Bureaux.

## SUPPLEMENTARY BENEFIT REVIEW

### CONSULTATION DOCUMENT

#### **Introduction**

1. The review of the supplementary benefit scheme was announced by the Secretary of State for Social Services on 2nd April 1984. It is one of four major reviews\* which together constitute a substantial re-examination of the social security system to see if better use can be made of resources and staff within the present overall level of social security expenditure.

2. Mr Tony Newton MP, Joint Parliamentary Under Secretary of State and Minister for the Disabled, is leading the review. He is being assisted by Mr Robin Wendt, Chief Executive of Cheshire County Council and member of the Social Security Advisory Committee, and Mr Basil Collins, Chairman of Nabisco Brands Ltd, from outside Government, and a small team of officials. The terms of reference are:

"To review the structure of the supplementary benefit scheme and consider the scope for easing its administration."

This document sets out issues on which the review is seeking public evidence.

#### **Background to the Review**

3. The expectation of the Beveridge report was that the role of supplementary benefit would be as a residual scheme for a small minority. This aim has never been realised. While the proportion of pensioners on supplementary benefit has fallen, there has been a continuing rise in the total number dependent on social assistance because of the increases in the real value of the benefit, numbers of one parent families and long-term unemployment. The scheme now provides help for 1 in 8 of the population. Expenditure is expected to reach over £6 billion this year, with a further £2.5 billion paid through the housing benefit scheme for claimants' housing costs.

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\*The other reviews cover: provision for retirement, housing benefit, and benefits for children and young people.

4. The 1980 reform which put the rules of the scheme into publicly available regulations was in principle an important advance. But there remain problems with the scheme, many longstanding. They arise from the complexity of the rules which relate support closely to individual circumstances, combined with the mass role the scheme continues to play. The scheme is difficult for claimants to understand in order to get their rights and for staff to administer. Computers will ease but not solve the problem of complexity. No other country operates such a centralised and detailed system to supplement basic income support.

#### Key issues for consultation

5. The review's terms of reference are wide. Those giving evidence may find it helpful to relate their comments to the following particular concerns of the review:

- \* The future role of the supplementary benefit scheme in the pattern of state financial provision and what its purpose should be, having regard to the main categories of claimants within its remit.
- \* The extent to which major reductions in complexity can be achieved within a scheme continuing to relate support to detailed individual circumstances.
- \* Whether there are alternative ways of providing means-tested help for several million people. Alternatives include schemes providing benefits for broad groups of claimants with less emphasis on individual circumstances, or options to provide simplified support for an initial period after which claimants are eligible for the full, detailed scheme.
- \* The basis on which support for the main groups covered by the scheme should be structured, and the extent to which the existing scale rate structure remains appropriate.
- \* How the scheme should deal with claimants' special expenses and difficulties, at present covered through a range of provisions for extra weekly needs, single payments and urgent need. What is the right balance between general income support and special need? When should special help be given and how should it be given?
- \* How should the scheme deal with incentives to claimants for self-help? Can there be better incentives for claimants to take part-time work, while retaining incentives for full-time work? How should claimants' capital and resources be treated to retain the incentive to save?
- \* The extent to which there is scope for improving alignment with other means-tested benefits, in particular housing benefit?
- \* The implications of proposals for administration of benefit, taking account of the need to reduce the burden on staff and provide a better service.

**Guidance on the submission of evidence**

6. The review is seeking written evidence by 31 July 1984. It will also be taking oral evidence. The review will not be able to deal with the position of individual claimants.

7. Evidence should be sent to:

The Secretary  
Supplementary Benefit Review  
Room 440  
New Court  
Carey Street  
LONDON WC2A 2LS

Tel: 01-831 6111 ext 2618

DHSS

May 1984

# REVIEW OF BENEFITS FOR CHILDREN AND YOUNG PEOPLE

## CONSULTATION DOCUMENT

### Introduction

1. The review of benefits for children and young people was announced by the Secretary of State for Social Services on 2 April 1984. It is one of four major reviews\* which together constitute a substantial re-examination of the social security system to see if better use can be made of resources and staff within the present overall level of social security expenditure.

2. Dr Rhodes Boyson MP, Minister for Social Security, is leading the review. He is being assisted by Mrs Barbara Shenfield, Chairman of the WRVS, and Mr T G Parry Rogers, Director Personnel and Europe of the Plessey Company, from outside Government, and a small team of officials. The terms of reference are:

"To review the present social security arrangements for giving financial help to families with children and to young people above school leaving age."

This document sets out issues on which the review is seeking public evidence.

3. The benefits entirely within the scope of the review will be those listed below. But the review will not be confined to these particular benefits. It will also consider the coherence of provision across the entire range of income-related and other benefits taking account of the concurrent reviews of supplementary benefit and housing benefit.

- (a) Child Benefit
- (b) One Parent Benefit
- (c) Family Income Supplement
- (d) Long-term National Insurance Child Dependency Additions
- (e) Guardian's Allowance
- (f) Child's Special Allowance.

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\* The other reviews cover: provision for retirement, housing benefit, and supplementary benefit.

### Key issues for consultation

4. The review terms of reference are wide. Those giving evidence may find it helpful to relate their comments to the following particular concerns of the review.

- \* Whether any change should be made in the present range and structure of benefits for children and young people. In particular, is the amount of re-distribution to families with children and the balance between one and two-parent families right?
- \* Whether entitlement to benefit should be conferred through contribution conditions, or on the basis of parents' income, or whether benefit should be financed directly from taxation and based on some other condition such as residence or some other criterion.
- \* What the general relationship should be between benefits provided when parents are out of work and when parents are employed. Whether benefits can be structured so as to reduce the effects of the poverty and unemployment traps.
- \* The age limit to which any special social security provision for children and young persons should apply, including the modification of any general limit because of special circumstances, for example, continuation of full-time education (at present covered up to age 19).
- \* The minimum age at which young people should be able to qualify for social security benefits in their own right, including the entitlement of 16-year-olds to supplementary benefit, which the Government has previously announced would be reviewed this year.
- \* The regard to be had to the programmes of other Government departments and of local authorities in establishing any revised social security provision for children and young people. Whether present relationships between the level of benefits provided for young people and provision for those undergoing full-time education or training should be modified.
- \* Arrangements for the administration of benefits including methods of payment.

5. Those commenting are asked to bear particularly in mind the contribution towards the stability of families which may be made by social security arrangements and also to consider opportunities for simplification both in the range of benefits and in the administration of individual benefits.

Guidance on the submission of evidence

6. The review is seeking written evidence by 31 July 1984. It will also be taking oral evidence. The review will not be able to deal with the position of individual claimants.

7. Evidence should be sent to:

The Secretary  
Review of Benefits for Children and Young People  
Room 440  
Department of Health and Social Security  
New Court  
Carey Street  
LONDON WC2A 2LS  
Tel: 01-831 6111 ext 2617

15 MAY 1984







File JRM  
cc John Redwood

5

10 DOWNING STREET

From the Private Secretary

9 May 1984

Dear David,

Seminar on Industry and Employment

Caroline Ryder's letter of 4 May (which we requested should be held in private offices) confirmed that there will be a meeting on 25 May at 0930 - 1230. The likely agenda will be:

- (i) Two papers by the Secretary of State for Employment on trends in the labour market and employment prospects; and the impact of Government policies to date and the options for further action.
- (ii) A paper by the Secretary of State for Trade and Industry on how the UK's export promotion effort could be made more effective.
- (iii) A paper by the No 10 Policy Unit on promoting wider ownership of property and financial assets.

There may also be time for members of the group to report orally on items outstanding from earlier meetings. Finally, the Prime Minister may invite colleagues to offer papers for a further meeting after the summer recess.

At the meeting in December, the Policy Unit were asked to compile a dossier of examples of successful entrepreneurship in the regions, identifying the factors behind their success. This they have now done and a copy of their report is enclosed for information.

I would be grateful if you could ensure that this letter could be shown only to Ministers and Principal Private Secretaries and that it is not copied or circulated outside private offices. In commissioning any briefing for this meeting, you should do so without referring to the meeting or its agenda.

I am copying this letter to David Nomington (D/Employment), Michael Reidy (D/Energy), John Ballard (D/Environment), Elizabeth Hodgkinson (DES), Callum McCarthy (DTI), Alex Galloway (CDL's office), David Young (MSC) and Richard Hatfield (Cabinet Office).

Yours sincerely  
Andrew

Andrew Turnbull

David Peretz Esq  
HM Treasury

MR TURNBULL8 May 1984SEMINAR AGENDA: TRADE TOPICSMaking export promotion more effective

At the last Seminar the DTI were asked to produce a paper on how export promotion could be made more effective. DTI's paper will discuss how greater emphasis can be given to export markets which can pay, and how to get more cash sales. DTI are likely to favour the unexciting, like sharpening up criteria for support. The paper would not discuss ECGD's future, now under review by officials following the Matthews Report.

The paper could be used as a way to open up two questions:

- (i) What is the Government's position on support for capital goods exports? The Government has published a Treasury study ("The Byatt Report") on the costs of this form of support. The report concluded that there are no good economic reasons for favouring capital goods exports in the way we do. There is no evidence that these orders generate follow-on business to any greater degree than exports in general. Subsidising them just encourages buyers to look for subsidies on the follow-on orders, too. The employment argument is also weak. The cost per job-year is very high; the report suggests a range of £50,000-£200,000 per job-year in 1982 - far higher than any of the employment schemes, and higher, too, than support for lame ducks. Helping the capital goods sector in this way pushes the costs onto other industries, who will export less as a result. The policy looks attractive because the orders win headlines ("power equipment order for Britain" is reported, but orders for biscuits, clothing, computer software are not). The burden of paying interest subsidies is overlooked because it is paid later, over 10-15 years.

The report was well received in the quality press. It resulted in predictable complaints from capital goods exporters, orchestrated by NEDO.

- (ii) What action can the Government take via the Economic Summit and beyond to encourage multilateral disarmament of protection and subsidy?

The Government needs to make a response. It could stand by the Byatt Report and take the opportunity to educate the public that exporting heavy metal objects is not

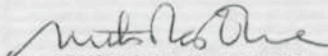
an end in itself: it is worthwhile to us only if it pays. This would necessitate policy changes to reduce our subsidies. Alternatively, the Government would have to disown the report and issue another, explaining why these subsidies are an essential part of our trade policy.

The multilateral disarmament approach to export subsidies is preferred but we will not contribute to raising the stakes (we suspect that DTI initiates mixed credits more than it lets on), nor should we commit ourselves to match any offer that other Governments choose to make.

The Seminar could also discuss the UK approach to VRAs, tariffs, industrial subsidies, in advance of the Summit.

### Conclusion

I understand that these items will be on the Seminar agenda. We should co-operate with DTI on the preparation of the necessary papers. I am in touch with Callum McCarthy about the export promotion paper. Should I pursue the other topics with him?

  
NICHOLAS OWEN

SECRET

c.c. Sir Alan Walters  
Mr. Redwood

ls



10 DOWNING STREET

*From the Private Secretary*

4 May, 1984.

Employment

Further to Andrew Turnbull's letter of 27 March regarding the Prime Minister's meeting on Friday, 25 May, I am now writing to confirm the arrangements.

This meeting will take place at No.10 and will start at 0930 and finish at approximately 1230. It will not include lunch. An agenda will be circulated shortly.

I am copying this letter to 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.

Caroline Ryder

David Normington, Esq.,  
Department of Employment.

SECRET

SECRET

c. AT-

3


4 May 1984

I telephoned David Peretz today and asked for factual information on share option schemes, employee shareholding schemes, other tax measures taken to encourage wider wealth ownership, and the fiscal position vis-a-vis institutional and direct shareholdings.

I telephoned Callum McCarthy at DTI and requested briefing on the privatisation initiatives to encourage employee shareholdings, Stock Exchange changes, and the creation of a retail market, small business and share option policies.

I then telephoned John Ballard at the DoE and asked for briefing on the current state of play on council house sales and the policy towards it.

All of this will be incorporated in a wider wealth ownership note. This will go to the 25 May meeting.



JOHN REDWOOD

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Pure Minutes ②

This is a preview of the main 4 May 1984  
Paper for the 25 May meeting.

MR TURNBULL

AT +15-

2

JOBS

On Thursday, Tom King held a four-hour seminar to discuss the next stages in the Government's policy towards unemployment.

There was general agreement that:

1. The political imperative was that there should be a perceived change of trend in the unemployment totals before the next Election, and that that downward trend should be credible and should have taken place over a reasonable period of months.
2. We have to remember that the last Election was won by convincing those in work that they now had a reasonable chance of keeping their jobs and prospering as a result: which they are now doing through the further increase in real wages.
3. The main reasons why unemployment remains obstinately high are the high and rising real wages relative to output and employer psychology which is still reluctant to take on any additional people for a variety of reasons.
4. The poverty and unemployment traps needed examination, as too many people still did not have sufficient incentive to work.

The likely outlines of a solution seem to be:

- i. A bold initiative to persuade individuals and small businesses that taking on people need not be an impossible hassle. Passport for a Job would enable individuals to be taken on and paid up to £45 a week without the employer needing to fill in any tax or national insurance returns, and would remove the individuals from the unemployment register and create genuine jobs. This could help change employer psychology in those areas of the economy most likely to generate new jobs. It would represent a big move against regulation, and would need to be presented as part of the small business enterprise culture. Many Treasury/DHSS obstacles have to be surmounted for it to succeed.
- ii. Moves to make the Enterprise Allowance a permanent feature of the landscape, available on demand. The EAS should not be seen as a special employment measure, but as an integral part of the Government's policies towards fostering enterprise.

JMEAAH

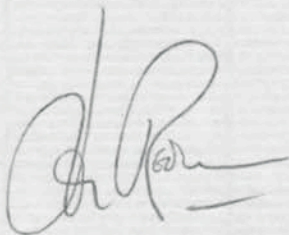
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SECRET

- 2 -

- iii. Further radical work on the housing market. One of the main constraints to mobility is the absence of housing, and it makes much more sense for people to move to jobs rather than moving jobs to people.
- iv. Urgent attention to the income tax/benefit nexus, with a view to abating the severity of the traps.
- v. A programme to offer community work to the long-term unemployed under the Community Programme, so that they can be taken off the register and given some work experience and discipline again. This would have to be financed at the expense of some of the more expensive and less effective job-creating mechanisms like regional policy.
- vi. Re-presentation of the whole range of measures taken by Government to stimulate new jobs. This effort needs to be made in a series of speeches by Cabinet members at the time that some of these new initiatives are announced. The Government must not only possess policies which will work, but must also be seen to be concerned. In addition, it is vital that any such package and statement is seen to be, not a U-turn but a natural extension of all that has gone before, part of the enterprise culture.

Tom King's paper is likely to give support to some of these ideas, and to incorporate a wider review of the various measures taken to date and ways in which they can be approved or amended. It will incorporate our work on the Special Employment Measures, and I hope draw colleagues' attention to the need to examine job measures on a cost-effectiveness basis, as there is far too wide a range in the cost and effectiveness of the measures so far adopted.



JOHN REDWOOD

JMEAAH

SECRET

1 May 1984

POLICY UNIT NOTE ON JOBS

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. We attach some comments based on our regional visits.

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 to create a freer labour market. But much more remains to be done. 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; employers still worry about the Employment Protection Act; 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.

Our general conclusions were:

1. It is usually better to subsidise people rather than companies.
2. 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 - results could be most impressive. Where local authorities were less keen on the 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.

LARABK



CONFIDENTIAL

- 2 -

3. Scattering subsidy and assistance over a very wide area without clear targets achieves little. Regional assistance for the whole of Merseyside has not been encouraging and, indeed, 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.
4. We found that monitoring of the effectiveness of measures in creating jobs which might be self-sustaining could be tightened up. It is important that jobs are not just subsidy-dependent, so we need to know how companies and individuals fare in the longer run. We need a better idea of relative costs and successes.
5. 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 create jobs that will be self-sustaining in the long run against the original odds of the region. They could help publicise 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.

Finally, we looked at the careers and histories of some successful entrepreneurs and their companies. There were few common threads, with the exception that specialisation in certain kinds of electronics, and certainly in electronic component distribution, was a good way to develop a fast-growing company which was likely to be successful. The entrepreneurs we looked at all had the stamina and the courage to overcome press hostility and scepticism, to concentrate on making money as their prime aim, and to take calculated risks. Some of the immigrant communities produce more than their fair share, probably because other avenues for social advancement were less easy. Few of them had been to business school: it seems difficult to train entrepreneurs. However, it does seem possible to increase

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the rewards for success and to make entrepreneurship an option that is discussed in schools, training colleges and in the community at large, so that more people decide to give it a go.

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VISITS TO SIX AREAS

We chose six areas where particular employment difficulties exist and where Government has created special agencies and allocated special funds to alleviate the worst problems. Our visits were of one or two days' duration only and do not represent detailed economic or social studies. Our aim was principally to gain an impression of each and to contrast what was being done.

The six areas are - London Docklands;  
Merseyside;  
Corby;  
Consett; and parts of the areas covered by the Scottish Development Agency and the Highlands and Islands Development Board.

The main conclusions we came to are these:

1. Not all areas are equally suitable for 'rescue'. Two - London Docklands and Corby - have decisive advantages of location which will enable them to share in the benefits of general economic recovery and to shed their 'special area' status in time. In our judgement, the other four areas will remain a special charge upon the Exchequer for as far ahead as we can see. We should not be deluded into thinking that an even heavier allocation of public funds will enable these areas to conquer much larger economic forces which cause greater activity elsewhere.

2. Liverpool is a unique case. It has some disadvantage of location - trade flows now being more intense in the south and east of Great Britain - compounded by the failure of artificial 'reindustrialisation' of the 1960s and 70s, and capped by the lunatic policies of Liverpool City Council. Industrial regeneration cannot be simply or quickly bought for Liverpool. Some degree of depopulation is inevitable and right. Assistance should help adjustment towards the smaller economic entity, not try to revive the grandeur of earlier decades.

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3. The various development agencies created to attract industry into problem areas have all been 'successful' on a limited scale. The important qualification is that, without exception, they have merely helped to influence the location of economic activity, not added to it.

4. With the exception of the Highlands and Islands Development Board, which does not have major conurbations to contend with, all the other areas require attention to land assembly and disposal. Without a supply of land which has either been part developed or is freely available for development, nothing will happen to generate economic activity.

5. Since land assembly is vital, so too is the relationship between development agency, planning authority, (usually the local authority) and the landowner (often the local authority). In some cases - London Docklands and Liverpool Docklands - the development agency was freed from any obligation towards the local authority and was given unfettered power to develop and dispose. In others - Corby and the Scottish Development Agency - a satisfactory working relationship between development agency and local authority has been consciously erected. In Liverpool (outside the area of the docks) there is ruinous confrontation.

There is no one right model which makes others wrong. But we observe most 'success' where the development agency is granted sweeping powers and focusses its effects on small areas; or where the local authority adds its weight to the other agencies.

6. In general, the evaluation and monitoring procedures adopted for special assistance are poor. Hundreds of millions of pounds are being spent without clear objectives. There is an urgent need to establish, at very least, a robust mechanism for identifying what our expenditure has bought.

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Special Expenditure

The Docklands Development Corporation is responsible for the rehabilitation of 5,000 devastated acres where only 37,000 people lived in 1981.

In the first two years of its life, the DC spent £75 million. The bulk of this cash was spent on acquiring and preparing housing land (£22m) and industrial and commercial land (£23m). The Enterprise Zone road, Surrey Docks distributor road and Beckton roads cost £6m. Budgets for 1983-86 show planned spending of £202m including £27m on the Docklands light railway, £58m on land, £22m on environmental improvements and £26m on roads and transport.

The land assembly and preparation is essential. Once developed the land is sold on to new owners and the money returned, often with the benefit of some planning gain. The infrastructure expenditure enhances the receipts on the land transactions and is central to creating the desire to buy docklands properties. The UDC retains influence over the style and purpose of the buildings by refusing to sell freeholds to any developer: the developer holds land under a licence which gives the UDC powers to influence the development. In the main the use of this power has been benign.

The Value of the Expenditure

The results of the expenditure, the enthusiasm of the UDC staff and the powers given to the UDC to acquire land are impressive. At Hays Wharf, after 15 years' delay under the old planning authorities, 40% of the area is going ahead for comprehensive office redevelopment. At nearby Cherry Pier and Cherry Gardens, an 8-acre site is being prepared for housing development by the private sector. In the Surrey Docks, where the DC owns all the land, they are busy stabilising and putting in basic services prior to bringing in the private sector.

North of the river, around the Limehouse Basin and the West India Dock, a 1,25 million square feet of industrial development is under way. Thirty per cent is already pre-let or owner-occupied, with a concentration on higher technology industries. The UDC has specialised in putting in high-quality red brick roads which are themselves an attractive feature, and a comprehensive ducting system to take fibre optic cables to ensure high quality telecommunications. It has a great advantage as a development operation in that it is not governed by the traditional planning regulation distinctions between industrial and office accommodation, and therefore its high technology buildings have been easier to design and build. The super-stores are also attracting considerable clientele, and are a great boost to the area.

The results are photogenic and show just how dramatic the change in a derelict area can be when the pump is primed by enthusiasts armed with reasonable planning and acquisition powers. Houses have been sold in Beckton in the £28,700 to £34,000 price range and former council tenants have been keen buyers. 3,500 houses have been built or started since 1981 and 3,500 jobs created. The UDC is not a plan-making body and this can cause delays. The concept is difficult to apply to more thickly populated areas where the override of local councils would be difficult to defend. Success in rehabilitation can lead to rapid escalation of land prices which then limits the opportunities for providing low priced housing for council tenants from adjacent estates. In the case of the London UDC they need rapid decisions on the light railway and the VSTOL airport to sustain the momentum.

Most recent figures suggest that for every £1 of public capital invested some £5 of private capital is forthcoming. The ratio should improve over time, and as the full 5,000 acres near completion of development the UDC should receive back much of its cash from land sales. The initial budget costs should be quite large in order to assemble sufficient land and put in the correct infrastructure to have some impact on the problem.

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It is difficult to see what Enterprise Zone status would add to the advantages of the UDC. If there was to be an EZ in London it is important it does not act as a counter-magnet to the UDC.

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Special Expenditure

Merseyside is classed as a Special Development Area and as such it attracts the highest available rates of Regional Aid. The Regional Development Grants which the Merseyside SDA receives are (at roughly £100m p.a.) far higher than for any other SDA in Great Britain. The amount of Regional Selective Assistance spent in Merseyside is of the order of £10m p.a.

In addition, Merseyside is provided with its own Task Force, which has a current year budget of £40m; and with a Merseyside Development Corporation, which is Government funded at present to about £30m p.a.

There are no exceptional expenditures undertaken by the Manpower Services Commission for Merseyside or for Liverpool.

In total, the expenditure advantages which the Merseyside SDA enjoys over a non-assisted area is of the order of £200m p.a. - equivalent to roughly £350 p.a. for each household in the SDA.

Population and Industrial Employment

Merseyside's population is in long term decline. The Met County population fell by 8.5% (to 1.5 million) in the 10 years 1971 to 1981, while that of Liverpool fell even further - by 16%, from 600,000 to 500,000 over the same period. Nevertheless, economic decline has proceeded faster than shrinkage of the population, with the result that unemployment has risen in the SDA from 12% to 20% over the period February 1980 to February 1984. In recent years, nett job losses have run at between 10,000 and 15,000 per annum.

The traditional large employers in and around Liverpool - the port, shipbuilding and repair, shipping services, and the processing and distribution of edible oil products - no longer enjoy the geographical and competitive advantages of past decades. It is



extremely unlikely that they will return to former levels of employment. Even the larger Merseyside based employers who are not consciously emigrating - Littlewoods, Unilever, Bibby, Ford, for example, are shedding labour to stay competitive.

MSC (locally) and the Task Force take the view that general economic revival in the UK will largely pass Merseyside by. Why should industry want to come to Merseyside? There are few sectoral roots there. Industrial relations, as a generality, are difficult - there is just too much weight of anecdotal evidence for this to be denied. Wage rates do not reflect local unemployment levels (MSC maintain, for instance, that building trades rates are the highest in the UK outside London). There is no pattern of new job creation, and (again according to MSC) Merseyside is well below the national average in its proportion of self-employed.

The policies of Liverpool City Council present a serious obstacle to hopes of recovery. The ruling Labour Group, which has been in control of the Council since last May, makes no secret of the hostility to private enterprise, and its disdain for the principles of prudent financial management. Instead it has refused to increase rates or to make savings, while creating a privileged clientele among council tenants and employees.

At present the Council is pursuing a deliberate strategy of seeking confrontation with Central Government. Whether this happens depends on the acceptability or otherwise of its budget for 1984-85. Whatever the outcome the implications for job prospects are alarming, with massive rate increases and further damage to the economic infrastructure and the reputation of Liverpool.

Any future initiatives to help solve the problems of Liverpool will have to take into account the difficulties raised by its local politics, and where possible by-pass them.

#### The Value of Special Expenditure

What is our £200m p.a. of special expenditure intended to buy? The answer is that we do not know, since neither Regional Assistance nor the Urban Programme have quantified objectives, whether in job terms or otherwise.

The task is essentially that of humanely managing the contraction, and an important part of that task is to prevent the insidious growth of physical dereliction. It costs relatively little to replace shattered buildings and streets with basic greenery. It does absorb a little labour, and it does not engender false expectations of new jobs.

With this in mind, we strongly support measures such as the restoration of 'key sites' in and around the City Centre. The sites include those round the Anglican Cathedral, the old Exchange Station, and the disused Tate and Lyle sugar refinery. But above all we applaud the creation and the efforts of the Merseyside Development Corporation, whose task is to clear and restore, for private sector development, 865 acres of derelict dockland, nearly all of it on the Liverpool bank of the Mersey.

The key issue is undoubtedly land - its acquisition, management and development to a point where the private sector shows rooted interest.

#### The Development Corporation and the Task Force

What particularly appeals to us about the Merseyside Development Corporation is:

- its remit (and determination) to do a high quality job on a limited areas of land
- its business-like organisation and style of project management
- its right to act independent of the Local Authority
- its involvement with the private sector - currently via local consultancies and contractors and eventually via housing and commercial developers.

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MDC seems to us to represent a good, though not the only, model for tackling urban dereliction. A Development Corporation, it must be said, is not a cheap option, at least initially. But it holds a very good prospect of the repayment of public sector investment.

We question the continuing role of the Task Force, though not the dedication of its members. It has inherited a finite number of projects from the Michael Heseltine initiatives but lacks the power which the MDC enjoys to get things done. The Task Force is constrained to act through Local Authorities, and finds itself obliged to pour lubricant into the points of friction between the City Council, the Met County Council, the DTI, the MSC and the DoE's own programme.

We urge Ministers to consider replacing the MTF, once existing commitments are fulfilled, with one or at most two new bodies similar to the MDC to tackle other limited areas of severe dereliction. Deregulated bodies working on a limited canvas will achieve far more, far more quickly, than bureaucracy working across a large tract.

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Special Expenditure

Corby was designated a Development Area (the middle of the three tiers of Assisted Area) in late 1979, and in 1981 was authorised to declare 280 acres of development land as an Enterprise Zone.

It has no separate Development Corporation, nor is it a significant recipient of Urban Programme expenditure or of special expenditure by MSC. But the town does have the Corby Industrial Development Centre (CIDC), run by an energetic Ulsterman, Fred McClenaghan, whose task is to market the benefits of Corby as a location for industry. CIDC runs no substantive programme of its own, but has an advertising and administrative budget of less than £500,000. CIDC is funded as to 70% from the New Towns Commission and the balance from Corby District Council, which is moderate Labour-controlled. CIDC reports jointly to its two sponsors, and operates effectively at arm's length from both.

DTI has spent, committed or offered £37 million to Corby since 1979 - £14 million via Regional Development Grant and just over £23m in Selective Assistance. Since that date, 4,000 jobs have been created, 2,000 more are known to be in process, and 3,000 more are expected if companies' plans materialise. If we count only the 6,000 or so jobs which have been or will be created, the cost per job is a little over £6,000 - a long way below the £35,000 national average quoted in Norman Tebbit's recent White Paper.

To look at it another way, each of Corby's 20,000 households has had a contribution of about £379 p.a. over the last five years - more or less the same as the Merseyside SDA.

Population and Industrial Employment

The Corby population is of the order of 50,000 and the available workforce around 27/28,000. Until 1978, British Steel (formerly

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Stewarts and Lloyds) employed over 11,000 on steel making and tube forming. Steel making has closed, and the site has been cleared. Tube forming continues, but rationalisation with parts of TI will happen eventually. BSC employees are now down to 3,000 and further losses are inevitable.

The efforts of CIDC have come nowhere near mopping up the labour shed by BSC, but there can be little doubt that their efforts have contained what would otherwise have been a very painful result. CIDC estimate that, with the BSC closures and downstream effects, Corby's unemployment rate would have reached 35%. In fact, unemployment peaked at 23% in mid-1981, had fallen to 19% by July 1983, and is still in the 18/19% area.

Corby's attraction to industry is a combination of its location and the Development Area/Enterprise Zone advantages. It lies within 20 miles of the M1, M6, M45 and A1 and is thus an excellent point for businesses which are largely or wholly dependent on distribution. If and when the A1/M1 link is completed, its locational advantage will be substantially enhanced.

Prominent names have been attracted. In alphabetical order, they include Avon Cosmetics, Aquascutum, BAT, BXL, Commodore Business Machines, Electro-Components, Oxford University Press, Rank Hovis McDougall, Tesco and Weetabix. The two largest projects in job terms are CBM (1,100 jobs) and Electro-Components subsidiary, RS Components Ltd (600 jobs). Although there are large numbers of very small businesses springing up, Corby has succeeded (where Merseyside has failed) in bringing in sound medium-sized businesses in the 100 plus employee category.

The Enterprise Zone has been spectacularly successful in attracting new investment. The Corby EZ, at 280 acres, is about 5% of total EZ acreage in the UK, yet has pulled in 39% of total investment. The private producer investment, at just under £43m, is very nearly as much as all other private producer investment in EZs in the UK. The attached summary tells a fuller tale.

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ENTERPRISE ZONES

Total investment in site development by type of investor,  
1 June 1981 - 31 May 1983 (1), £000

	Public developers	Other public author- ities	Private producers	Private, developers, financ. instits.	Other private	Total	
Salford	-	-	2,268	4,867	735	7,870	
Trafford	-	-	37	3,071	-	3,108	
Swansea	2,024	-	8,423	2,189	-	12,636	
Wakefield	290	-	179	640	-	1,109	
Clydebank	10,243	-	4,998	1,250	-	16,491	
Dudley	-	120	3,813	3,956	125	8,014	
Hartlepool	1,918	-	393	581	-	2,892	
Corby	17,630	-	42,673	1,265	-	61,568	
Newcastle	212	-	7,841	650	-	8,703	
Team Valley	3,557	29	890	2,785	-	7,261	
Gateshead	230	99	1,364	-	-	1,693	
Speke	1,577	-	349	650	-	2,276	
Isle of Dogs	100	1,780	9,598	4,425	-	15,903	
Belfast (2)	32	-	1,675	420	312	2,439	
Belfast (3)	-	-	3,072	1,821	459	5,352	
Total	37,813	2,028	87,573	28,270	1,631	157,315	
	8	24	1	56	18	1	100

(1) For the Isle of Dogs and Belfast, the monitoring period started in September 1981 and October 1981 respectively.

(2) Inner City section (3) North Foreshore section

Note: These figures cover all developments under construction at 31 May 1981 or begun since.

Source: YEALDS

(This is page 21 from 'Monitoring Enterprise Zones' by Roger Tym and Partners, published in January 1984)

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The original Corby EZ is now fully committed, and the town is pressing for EZ designation of a further 25 acres, contiguous with the existing area and sited on land cleared after the closure of the steelmaking plant. Prima facie, it is difficult to see why Corby's request should not be granted.

Potential Problems

The success of CIDC, which they themselves would describe as only a little more than moderate, depends crucially on good personal relationships between the District Council, the County Council and CIDC itself. Institutionally, the arrangement is not durable. A change in the attitudes of the District Council or at the top of CIDC could have difficult repercussions for industrial development or land regeneration. There is no one right recipe which makes all others wrong, but pragmatic cooperation between interested parties is of course indispensable to any solution.

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Population and Employment

Consett lies in Derwentside District Council, a community of some 90,000 people, 14 miles south west of Newcastle upon Tyne. Consett's traditional industrial dependence was on coal and steel. Coal had been in serious long-term decline by the time steel closures began to bite. Peak employment in local pits reached 17,000 but the last pits closed in 1980. Serious run-down at BSC got under way in 1978. In the two years to September 1980, 1,000 jobs had been lost, then BSC closed the remaining facilities entirely, with a further loss of 3,500 jobs. In the ensuing two years, there was major contraction in other local manufacturing industries, most notably at RHP Limited (bearing manufacturers) where a further 1,250 jobs were shed in 1981.

At the time of the final steelworks closure, BSC accounted for over 12% of total local employment. The unemployment rate in north-west Durham was then already nearly double the average for Great Britain (15.5% against 8.3%) and the effect of the BSC closure was to send the local rate to just over 25%.

Special Expenditure

Consett was already a Special Development Area by the time of the final steel closure and therefore qualified for the highest level of regional aid. The area also attracts European Coal and Steel Community aid, especially low cost loans, and will be a special programme area under the European Regional Development Fund non-quota section.

As a steel-closure area, Consett received initial support from BSC Industry. A grant of £10 million was made for clearing and landscaping the steelworks site, and provided funds for advance factory building, special manpower measures and support for loss of rate income. The English Industrial Estates Corporation put



in £12.6 million over five years for a potential 650,000 square feet of advance factories capable of accommodating some 2,500 jobs. Over the three years to December 1983, £2.6 million was paid in selective financial assistance to 24 projects which accounted for 1,000 new jobs and safeguarded 160 more.

The Derwentside Industrial Development Agency was set up in 1982 on the initiative of BSC, with six staff. Its first objective was to maintain the momentum of industrial regeneration begun by the District Council and BSC Industry. Initial donations of £120,000 were provided by BSC Industry, the District Council and local firms. DIDA, in its first year, attracted 800 new jobs and plans to attract a further 1,000 this year. DIDA runs on a budget about one-fifth that of Corby for a population about 50% greater. Furthermore, Consett has no Enterprise Zone.

DIDA, in the commitment of its staff and in the results it achieves with few resources, is one of the more impressive agencies we visited. Its particular strength is in the evaluation and monitoring of projects whose sponsors have applied for aid.

The proponents of each potentially aid-worthy project are helped to produce a detailed business plan setting out forecasts of sales, jobs, product descriptions, markets and costs and including the curricula vitae of the directors. DIDA plans suggest that there will be about 3,500 new jobs over the next three years.

The Agency carries out an annual job audit, monitoring 180 companies and projects, each year, at about the end of March, every company is telephoned to check the number of people employed, performance against the plan and any necessary follow-up.

In summary, Consett is an example of what a well organised, low budget development agency can do to alleviate the worst effects of industrial contraction over a limited area. To classify it as successful requires us to overlook the fact that it has done no

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more than attract to Derwentside jobs which would have arisen elsewhere. As yet there is no pattern of firms taking root there which would give rise to hope that a new industrial structure, viable for the long term, is in process of creation.

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Special Expenditure

The whole of the western half of Scotland, and small patches on the eastern side are Assisted Areas. Large parts of Strathclyde and Fife are Special Development Areas. Livingstone and Glenrothes are new towns where similar benefits are available, while Clydebank additionally is an Enterprise Zone. These areas all receive the highest rates of regional aid available. The Western Isles, virtually the whole of the Highlands Local Authority and a large part of Dumfries and Galloway are classified as Development Areas, ie the middle of the three tiers of assisted area.

In 1982 the Scottish Assisted Areas received just over 25% of all regional assistance for Great Britain, whereas the whole of Scotland accounts for just over 9% of the GB population.

In addition, Scotland enjoys the services of the Highlands and Islands Development Board (see area report 6) and of the Scottish Development Agency (SDA) - statutory bodies which receive funding directly from the Scottish Office, but also channel Regional Aid in Scotland to candidate companies.

The SDA and HIDB are large scale development undertakings compared with those we visited in London, Corby and Consett. The SDA was established in 1975 to concentrate effort on four priorities: small businesses, the encouragement of inward investment, support for new technology, and area projects such as the Glasgow Eastern Area Renewal. It employs 730 staff headquartered in Glasgow.

The SDA's geographical remit is Scotland-wide, although its efforts are less intense in the HIDB area. The SDA owned net assets of just under £290 million in March 1983 - £260 million in property and £30 million in investments - and had income and expenditure of

£108 million in the year.

The scale of its investment in Scottish industry suggests an operation which verges on dirigisme. The SDA has investments in 677 small businesses and 858 larger companies. It owns 218 industrial sites and 27 million square feet of industrial accommodation. It sanctioned nearly 450 land renewal schemes in the 12 months ending March 1983.

The emphasis of SDA activity is now shifting away from estate management and towards marketing. The principal benefit which the SDA has to offer is the capacity for creating a "single door package". In other words, firms interested in coming to Scotland do not have to troop around to banks, property companies and a host of different government agencies. SDA is particularly anxious to attract in the newer technologies, particularly microelectronics and biotechnology. The Chief Executive of the SDA, Dr Mathewson, is keen to invest in an artificial intelligence institute as well. He felt, however, that there is a shortage of academic infrastructure, and he also noted that it was necessary to get more good financial men among academics so that the latter could be exposed to commercial disciplines.

Not surprisingly, SDA is prickly about rival inward investment promotions in other parts of Great Britain. Dr Mathewson in particular was worried that the DTI Invest in Britain Bureau might want to start restraining the SDA's own overseas promotion activities.

It is not clear what nett benefit the SDA has brought about. The monitoring of jobs obtained has been unsatisfactory, with the result that no useful figures are yet available. The capital cost per job secured works out in the region of £10,000, but such figures are, the SDA feels, rather misleading. Simply creating jobs is not the answer. "What we need are added value jobs". Our view is that even the approximate figure of £10,000 per job may be a serious understatement. The nine urban renewal projects described in the SDA's Annual Report and Accounts suggest that the cost per job for these

undertakings is in the region of £47,000.

### Glasgow Eastern Area Renewal Project (GEAR)

GEAR is the most expensive of the nine SDA area projects. Its public sector budget of £200 million over ten years to 1986 is now expected to be nearer £300 million, and is more than the cost of all the other projects combined. The expenditure of £300 million public funds is expected to have produced private sector inputs of between £150 million and £200 million by the end of the project, at a cost to taxpayers and ratepayers of about £75,000 per acre or nearly £7,000 per resident.

Although GEAR is managed by the SDA, its public funding comes from no fewer than seven sources - Strathclyde Regional Council, Glasgow District Council, Scottish Special Housing Association, Greater Glasgow Health Board, Housing Corporation, Manpower Services Commission, and Scottish Development Agency itself.

The scale of the problem to be tackled is appalling. Population in the 4,000 acres of Glasgow's East End has fallen from 115,000 to 45,000 since the last war, and the area has become largely derelict. There was a concentration of industrial chemical pollution in the area. Educational standards there are minimal. The aims of the GEAR project are to retain and create jobs, to improve the quality of life and the environment, to create better housing, and to "involve the community". Some of these aims are intangible, which makes measuring success impossible. But even where specific targets could have been set, none has been - a familiar tale.

Richard Colwell, the SDA's Director of Area Projects, said that once the GEAR project has been completed it would be time to turn to the newly emerging black spots in the suburbs. Glasgow has four of these, each with a population of 40,000-50,000, each with dreadful housing. "We need to get there before the decline becomes as bad as it had been in the East End area." Yet, if expenditure to date on GEAR is any guide, we must set clear targets before embarking on any of these further projects.

The GEAR project fully recognises the importance of land assembly and development as the key to urban renewal, and we can only applaud that. What is less clear is the SDA's role, longer-term, in the developed area. It should want to hand over to the private sector, in the manner of the Development Corporations in London and Liverpool; but we suspect that the area will continue to form part of the Agency's ever expanding portfolio of property and industrial investments.

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The Highlands and Islands Development Board covers a large area of remoter mainland Scotland (roughly the area north and west of a line joining Arran and Elgin) and the surrounding islands. The Board was established in 1965 "for the purpose of assisting the people of the Highlands and Islands to improve their economic and social conditions and of enabling the Highlands and Islands to play a more effective part in the economic and social development of the nation". What this means in action terms is unclear. As the Board itself says, in its 1982 Report, "the Board's remit to develop the area economically and socially is a very wide one and does not in itself help to identify a plan of action ... in publishing our strategic plan we seek only to show the activities on which we are placing importance at the present time." (!)

Like the SDA, the HIDB has and uses powers of investment in companies and projects, and of ownership of land. On its own smaller scale, it is no less dirigiste than the SDA.

The retention of population and the maintenance of incomes evidently figures as a high priority, and the favourite mechanism is industrial investment. As to population, in the 40 years to 1961, the number of people living in the HIDB area fell by nearly 20%, but in the 20 years since then the population has grown again by 16% to 350,000. In 1982, the unemployment rate, at 14.1%, was a little lower than for Scotland as a whole but a little above that for Great Britain as a whole. But long term unemployment was lower, at 28% of unemployed, versus 35/36% for Great Britain and Scotland.

In the ten years to the end of 1982, HIDB assistance at constant 1982 prices totalled £159 million. The corresponding contribution from the private sector was £258 million and overall gearing of 1.6:1 although in 1982 the contribution from private sources had produced a ratio of almost 2.5:1 the best the Board had achieved in the past five years. HIDB estimates that this investment has created

or retained more than 22,000 jobs at a capital cost, crudely measured, of £7,200 per job. By the end of 1982 the Board owned assets of £47 million, split roughly half and half between land or property and investments in companies. Its expenditure in the year was about £15 million.

Financial support gravitates naturally towards industry sectors already present in the HIDB area: fishing, timber, off-shore rig construction, woollen goods and tourism. There is no specific policy of attracting in novel sectors to the area, although reports have recently been commissioned on the prospects for biotechnology and health care industries in the HIDB area. The scale of new employment opportunities open to HIDB is clearly inadequate to cope with major industrial closures - the pulp mill at Fort William, the aluminium smelter at Invergordon and the threatening shortage of rig work at Highland Fabricators in Nigg Bay.

Even though job creation is a prime objective of the Board, the monitoring of jobs created is not as good as it should be. After five years, the Board takes firms it has assisted off its books because it would be "too time-consuming to keep in touch with every guest house, fish farm and boat". There is, however, an annual audit of jobs in Board factories.

It is not clear that the underlying objectives of maintaining a certain size of population or of maintaining a certain level of average income are in themselves worthwhile. Is it actually undesirable that sparsely populated areas become somewhat more sparsely populated? Does the maintenance of a population by subsidy not tend to generate demands for yet more subsidy, for instance on infrastructure projects? Members of the HIDB were certainly keen to have better telecommunication and more roads like the A9 highway to Inverness. As a political cosmetic, however, we have to rate the activities of HIDB highly. Expenditure of as little as £15 million per annum on such a large geographical area is valuable, if only because withdrawing it could send worrying signals to the more southerly, more heavily populated regions of Scotland.



BF 2/5 AT

Prime Minister (2)

Agree I calculate this to the Industry and Employment Seminar group - plus Mr Younger?

AT 18/4

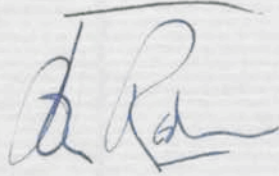
18 April 1984

Yes - I've included it

PRIME MINISTER

I attach a note on entrepreneurs and a report on the Policy Unit visits to some of the UK regions, which is the second half of the draft paper on Jobs we were asked to produce by the December Seminar. Bob Young worked particularly hard on producing this piece.

You saw the first half prior to meeting Tom King, and the conclusions have been fed into the Department of Employment draft paper on Jobs.



JOHN REDWOOD

18 April 1984

PRIME MINISTER

ENTERPRISE AND ENTREPRENEURS

Some men are born entrepreneurs. Some men achieve entrepreneurship. Others have entrepreneurship thrust upon them.

It is difficult to legislate to make more entrepreneurs. But it is possible to help create a climate of opinion in which entrepreneurs can flourish.

We have looked at the careers and the companies of several of the most successful entrepreneurs in Britain over the last couple of decades. These include Lord Hanson of Hanson Trust, Sir Ernest Harrison of Racal Electronics, Lord Weinstock of GEC, Mr Peter Levene of United Scientific Holdings, Mr Phil Harris of Harris Queensway, Mr Sugar of Amstrad Electronics, Mr Azil Nadir of Polly Peck, Mr Mark Weinberg of Hambro Life, Mr Esmond Bulmer of Bulmers, and Owen Green of BTR.

Their achievement can be seen in the turnover growth they have attained:

1973-82 Growth in Sales

USH	+ 2,865%
Racal	+ 2,513%
Hanson Trust	+ 2,119%
Polly Peck	+ 1,357%
BTR	+ 1,032%
Amstrad	+ 401% (4 years only)
Harris Queensway	+ 364% (5 years only)
Bulmer	+ 480%
GEC	+ 309%

I met them in my previous incarnation, and got to know their companies well. There is no one area of activity that works, although electronic component distribution has produced more than its fair share of winners.

It is not the educational experience of these men that singles them out. Many of them had little formal training at all, nor had they usually been to business school. Sometimes entrepreneurs emerge from hardship. On other occasions they emerge from professional trainings - Ernest Harrison was an accountant, a profession which usually throws up caution rather than enterprise. Their one unifying characteristic is their urge to make money and to build companies. It is an urge which has not abated with

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the passage of years and the achievement of stature and riches that could take care of their life's requirements without further effort.

In some cases, an inheritance is an important first step. Phil Harris inherited a couple of shops from his father,, and at a very early age decided to run them himself and, with a few lucky breaks, started building a chain. Each of them has a canny eye for a market niche, a new product or a new service. Bulmers have expanded rapidly on the back of relatively light cider duties and aggressive marketing. They each have distinctive styles of management philosophy. There is no one system that works. At Hanson Trust, management is hands-on, and authorisations for even tiny sums of capital spending have to come through to central office for the approval of the Chairman himself. At Polly Peck, there is an infatuation with products and with new joint ventures, often to the short-term exclusion of worrying about balance sheet pressures.

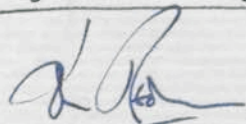
There does seem, in the British entrepreneurial community, to be a high proportion of immigrants. The Djanogly's, who built Nottingham Manufacturing in the late 1960s and early 1970s, came from central Europe and decided to run a cash-generating, unborrowed business, because in their early years the banks refused to lend them a penny. The bitterness still runs deep. Most of the small shops that stay open late hours are run by Pakistani or Indian immigrants; and the Uganda Asians have all shown themselves to have more than average flexibility in starting up businesses. Most of the City merchant banks (eg Warburgs) Rea Bros were set up by emigres from central Europe, and the Jewish community has always contributed more than its fair share of successful family companies. There is something about the motivation of certain kinds of immigrant into the UK that wants to transmute the feeling of some alienation from the society into the successful pursuit of wealth.

Though GEC has  
cannot be  
pursuit of Govt  
subsidy / credit  
to a high art.

The most successful entrepreneurs do not request Government subsidy, do not spend their life talking to the DTI, or seeking advice from Government agencies. They do not set up in enterprise zones or depressed areas unless it suits them to anyway. They will exploit ruthlessly any loopholes created by Government regulation or tax anomalies - eg Weinberg with the life assurance premium relief. They spend their whole energies managing their business and thinking of new opportunities for their business. They usually do it in the early stages in the face of press hostility and scepticism - Hanson for years was vilified as a fast operator likely to go bankrupt. Harrison was accused of running a company that thrived on bribing Middle-Eastern potentates. Nadir has been subject to an orchestrated campaign about phoney accounting practices and rigged

reports to shareholders. Weinstock had a period in his early career when he was regarded as a butcher.

The general prescription to encourage entrepreneurship is the same as the litany for improving the economy at large. Less regulation on the whole helps. A liberal tax regime helps, otherwise these entrepreneurs will think about going offshore, or will make separate arrangements for the routing of their own monies to a tax haven of their choice. There needs to be a business law which allows them to make reasonable mistakes without undue penalty. They will probably respond to a more buoyant general atmosphere towards the economy: national morale can be infectious. You cannot train them; you cannot subsidise them into existence. You can only hope that the message about the joys of successful entrepreneurship is infectious and that, as the regulatory and tax regime becomes more manageable, more marginal entrepreneurs are persuaded to give it a go.



JOHN REDWOOD

# CONFIDENTIAL

AREA REPORT 1

LONDON DOCKLANDS

## Special Expenditure

The Docklands Development Corporation is responsible for the rehabilitation of 5,000 devastated acres where only 37,000 people lived in 1981.

In the first two years of its life, the DC spent £75 million. The bulk of this cash was spent on acquiring and preparing housing land (£22m) and industrial and commercial land (£23m). The Enterprise Zone road, Surrey Docks distributor road and Beckton roads cost £6m. Budgets for 1983-86 show planned spending of £202m including £27m on the Docklands light railway, £58m on land, £22m on environmental improvements and £26m on roads and transport.

The land assembly and preparation is essential. Once developed, the land is sold on to new owners and the money returned, often with the benefit of some planning gain. The infrastructure expenditure enhances the receipts on the land transactions and is central to creating the desire to buy docklands properties. The UDC retains influence over the style and purpose of the buildings by refusing to sell freeholds to any developer: the developer holds land under a licence which gives the UDC powers to influence the development. In the main the use of this power has been benign.

## The Value of the Expenditure

The results of the expenditure, the enthusiasm of the UDC staff and the powers given to the UDC to acquire land are impressive. At Hays Wharf, after 15 years' delay under the old planning authorities, 40% of the area is going ahead for comprehensive office redevelopment. At nearby Cherry Pier and Cherry Gardens, an 8-acre site is being prepared for housing development by the private sector. In the Surrey Docks, where the DC owns all the land, they are busy stabilising and putting in basic services prior to bringing in the private sector.

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North of the river, around the Limehouse Basin and the West India Dock, a 1,25 million square feet of industrial development is under way. Thirty per cent is already pre-let or owner-occupied, with a concentration on higher technology industries. The UDC has specialised in putting in high-quality red brick roads which are themselves an attractive feature, and a comprehensive ducting system to take fibre optic cables to ensure high quality telecommunications. It has a great advantage as a development operation in that it is not governed by the traditional planning regulation distinctions between industrial and office accommodation, and therefore its high technology buildings have been easier to design and build. The super-stores are also attracting considerable clientele, and are a great boost to the area.

The results are photogenic and show just how dramatic the change in a derelict area can be when the pump is primed by enthusiasts armed with reasonable planning and acquisition powers. Houses have been sold in Beckton in the £28,700 to £34,000 price range and former council tenants have been keen buyers. 3,500 houses have been built or started since 1981 and 3,500 jobs created. The UDC is not a plan-making body and this can cause delays. The concept is difficult to apply to more thickly populated areas where the override of local councils would be difficult to defend. Success in rehabilitation can lead to rapid escalation of land prices which then limits the opportunities for providing low priced housing for council tenants from adjacent estates. In the case of the London UDC they need rapid decisions on the light railway and the VSTOL airport to sustain the momentum.

Most recent figures suggest that for every £1 of public capital invested some £5 of private capital is forthcoming. The ratio should improve over time, and as the full 5,000 acres near completion of development the UDC should receive back much of its cash from land sales. The initial budget costs should be quite large in order to assemble sufficient land and put in the correct infrastructure to have some impact on the problem.

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It is difficult to see what Enterprise Zone status would add to the advantages of the UDC. If there was to be an EZ in London it is important it does not act as a counter-magnet to the UDC.

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Special Expenditure

Merseyside is classed as a Special Development Area and as such it attracts the highest available rates of Regional Aid. The Regional Development Grants which the Merseyside SDA receives are (at roughly £100m p.a.) far higher than for any other SDA in Great Britain. The amount of Regional Selective Assistance spent in Merseyside is of the order of £10m p.a.

In addition, Merseyside is provided with its own Task Force, which has a current year budget of £40m; and with a Merseyside Development Corporation, which is Government funded at present to about £30m p.a.

There are no exceptional expenditures undertaken by the Manpower Services Commission for Merseyside or for Liverpool.

In total, the expenditure advantages which the Merseyside SDA enjoys over a non-assisted area is of the order of £200m p.a. - equivalent to roughly £350 p.a. for each household in the SDA.

Population and Industrial Employment

Merseyside's population is in long term decline. The Met County population fell by 8.5% (to 1.5 million) in the 10 years 1971 to 1981, while that of Liverpool fell even further - by 16%, from 600,000 to 500,000 over the same period. Nevertheless, economic decline has proceeded faster than shrinkage of the population, with the result that unemployment has risen in the SDA from 12% to 20% over the period February 1980 to February 1984. In recent years, nett job losses have run at between 10,000 and 15,000 per annum.

The traditional large employers in and around Liverpool - the port, shipbuilding and repair, shipping services, and the processing and distribution of edible oil products - no longer enjoy the geographical and competitive advantages of past decades. It is



extremely unlikely that they will return to former levels of employment. Even the larger Merseyside based employers who are not consciously emigrating - Littlewoods, Unilever, Bibby, Ford, for example, are shedding labour to stay competitive.

MSC (locally) and the Task Force take the view that general economic revival in the UK will largely pass Merseyside by. Why should industry want to come to Merseyside? There are few sectoral roots there. Industrial relations, as a generality, are difficult - there is just too much weight of anecdotal evidence for this to be denied. Wage rates do not reflect local unemployment levels (MSC maintain, for instance, that building trades rates are the highest in the UK outside London). There is no pattern of new job creation, and (again according to MSC) Merseyside is well below the national average in its proportion of self-employed.

The policies of Liverpool City Council present a serious obstacle to hopes of recovery. The ruling Labour Group, which has been in control of the Council since last May, makes no secret of the hostility to private enterprise, and its disdain for the principles of prudent financial management. Instead it has refused to increase rates or to make savings, while creating a privileged clientele among council tenants and employees.

At present the Council is pursuing a deliberate strategy of seeking confrontation with Central Government. Whether this happens depends on the acceptability or otherwise of its budget for 1984-85. Whatever the outcome the implications for job prospects are alarming, with massive rate increases and further damage to the economic infrastructure and the reputation of Liverpool.

Any future initiatives to help solve the problems of Liverpool will have to take into account the difficulties raised by its local politics, and where possible by-pass them.

#### The Value of Special Expenditure

What is our £200m p.a. of special expenditure intended to buy? The answer is that we do not know, since neither Regional Assistance nor the Urban Programme have quantified objectives, whether in job terms or otherwise.

The task is essentially that of humanely managing the contraction, and an important part of that task is to prevent the insidious growth of physical dereliction. It costs relatively little to replace shattered buildings and streets with basic greenery. It does absorb a little labour, and it does not engender false expectations of new jobs.

With this in mind, we strongly support measures such as the restoration of 'key sites' in and around the City Centre. The sites include those round the Anglican Cathedral, the old Exchange Station, and the disused Tate and Lyle sugar refinery. But above all we applaud the creation and the efforts of the Merseyside Development Corporation, whose task is to clear and restore, for private sector development, 865 acres of derelict dockland, nearly all of it on the Liverpool bank of the Mersey.

The key issue is undoubtedly land - its acquisition, management and development to a point where the private sector shows rooted interest.

#### The Development Corporation and the Task Force

What particularly appeals to us about the Merseyside Development Corporation is:

- its remit (and determination) to do a high quality job on a limited areas of land
- its business-like organisation and style of project management
- its right to act independent of the Local Authority
- its involvement with the private sector - currently via local consultancies and contractors and eventually via housing and commercial developers.

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MDC seems to us to represent a good, though not the only, model for tackling urban dereliction. A Development Corporation, it must be said, is not a cheap option, at least initially. But it holds a very good prospect of the repayment of public sector investment.

We question the continuing role of the Task Force, though not the dedication of its members. It has inherited a finite number of projects from the Michael Heseltine initiatives but lacks the power which the MDC enjoys to get things done. The Task Force is constrained to act through Local Authorities, and finds itself obliged to pour lubricant into the points of friction between the City Council, the Met County Council, the DTI, the MSC and the DoE's own programme.

We urge Ministers to consider replacing the MTF, once existing commitments are fulfilled, with one or at most two new bodies similar to the MDC to tackle other limited areas of severe dereliction. Deregulated bodies working on a limited canvas will achieve far more, far more quickly, than bureaucracy working across a large tract.

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Special Expenditure

Corby was designated a Development Area (the middle of the three tiers of Assisted Area) in late 1979, and in 1981 was authorised to declare 280 acres of development land as an Enterprise Zone.

It has no separate Development Corporation, nor is it a significant recipient of Urban Programme expenditure or of special expenditure by MSC. But the town does have the Corby Industrial Development Centre (CIDC), run by an energetic Ulsterman, Fred McClenaghan, whose task is to market the benefits of Corby as a location for industry. CIDC runs no substantive programme of its own, but has an advertising and administrative budget of less than £500,000. CIDC is funded as to 70% from the New Towns Commission and the balance from Corby District Council, which is moderate Labour-controlled. CIDC reports jointly to its two sponsors, and operates effectively at arm's length from both.

DTI has spent, committed or offered £37 million to Corby since 1979 - £14 million via Regional Development Grant and just over £23m in Selective Assistance. Since that date, 4,000 jobs have been created, 2,000 more are known to be in process, and 3,000 more are expected if companies' plans materialise. If we count only the 6,000 or so jobs which have been or will be created, the cost per job is a little over £6,000 - a long way below the £35,000 national average quoted in Norman Tebbit's recent White Paper.

To look at it another way, each of Corby's 20,000 households has had a contribution of about £379 p.a. over the last five years - more or less the same as the Merseyside SDA.

Population and Industrial Employment

The Corby population is of the order of 50,000 and the available workforce around 27/28,000. Until 1978, British Steel (formerly

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Stewarts and Lloyds) employed over 11,000 on steel making and tube forming. Steel making has closed, and the site has been cleared. Tube forming continues, but rationalisation with parts of TI will happen eventually. BSC employees are now down to 3,000 and further losses are inevitable.

The efforts of CIDC have come nowhere near mopping up the labour shed by BSC, but there can be little doubt that their efforts have contained what would otherwise have been a very painful result. CIDC estimate that, with the BSC closures and downstream effects, Corby's unemployment rate would have reached 35%. In fact, unemployment peaked at 23% in mid-1981, had fallen to 19% by July 1983, and is still in the 18/19% area. *cf National average of 13% and coming down towards 15% in W. Midlands.*

Corby's attraction to industry is a combination of its location and the Development Area/Enterprise Zone advantages. It lies within 20 miles of the M1, M6, M45 and A1 and is thus an excellent point for businesses which are largely or wholly dependent on distribution. If and when the A1/M1 link is completed, its locational advantage will be substantially enhanced.

Prominent names have been attracted. In alphabetical order, they include Avon Cosmetics, Aquascutum, BAT, BXL, Commodore Business Machines, Electro-Components, Oxford University Press, Rank Hovis McDougall, Tesco and Weetabix. The two largest projects in job terms are CBM (1,100 jobs) and Electro-Components subsidiary, RS Components Ltd (600 jobs). Although there are large numbers of very small businesses springing up, Corby has succeeded (where Merseyside has failed) in bringing in sound medium-sized businesses in the 100 plus employee category.

The Enterprise Zone has been spectacularly successful in attracting new investment. The Corby EZ, at 280 acres, is about 5% of total EZ acreage in the UK, yet has pulled in 39% of total investment. The private producer investment, at just under £43m, is very nearly as much as all other private producer investment in EZs in the UK. The attached summary tells a fuller tale.

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ENTERPRISE ZONES

Total investment in site development by type of investor,  
1 June 1981 - 31 May 1983 (1), £000

	Public developers	Other public author- ities	Private producers	Private, developers, financ. instits.	Other private	Total
Salford	-	-	2,268	4,867	735	7,870
Trafford	-	-	37	3,071	-	3,108
Swansea	2,024	-	8,423	2,189	-	12,636
Wakefield	290	-	179	640	-	1,109
Clydebank	10,243	-	4,998	1,250	-	16,491
Dudley	-	120	3,813	3,956	125	8,014
Hartlepool	1,918	-	393	581	-	2,892
Corby	17,630	-	42,673	1,265	-	61,568
Newcastle	212	-	7,841	650	-	8,703
Team Valley	3,557	29	890	2,785	-	7,261
Gateshead	230	99	1,364	-	-	1,693
Speke	1,577	-	349	650	-	2,276
Isle of Dogs	100	1,780	9,598	4,425	-	15,903
Belfast (2)	32	-	1,675	420	312	2,439
Belfast (3)	-	-	3,072	1,821	459	5,352
Total	37,813	2,028	87,573	28,270	1,631	157,315
	% 24	1	56	18	1	100

(1) For the Isle of Dogs and Belfast, the monitoring period started in September 1981 and October 1981 respectively.

(2) Inner City section      (3) North Foreshore section

Note: These figures cover all developments under construction at 31 May 1981 or begun since.

Source: YEALDS

(This is page 21 from 'Monitoring Enterprise Zones' by Roger Tym and Partners, published in January 1984)

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The original Corby EZ is now fully committed, and the town is pressing for EZ designation of a further 25 acres, contiguous with the existing area and sited on land cleared after the closure of the steelmaking plant. Prima facie, it is difficult to see why Corby's request should not be granted. *(Does it still need this exceptional assistance? AT)*

Potential Problems

The success of CIDC, which they themselves would describe as only a little more than moderate, depends crucially on good personal relationships between the District Council, the County Council and CIDC itself. Institutionally, the arrangement is not durable. A change in the attitudes of the District Council or at the top of CIDC could have difficult repercussions for industrial development or land regeneration. There is no one right recipe which makes all others wrong, but pragmatic cooperation between interested parties is of course indispensable to any solution.

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Population and Employment

Consett lies in Derwentside District Council, a community of some 90,000 people, 14 miles south west of Newcastle upon Tyne. Consett's traditional industrial dependence was on coal and steel. Coal had been in serious long-term decline by the time steel closures began to bite. Peak employment in local pits reached 17,000 but the last pits closed in 1980. Serious run-down at BSC got under way in 1978. In the two years to September 1980, 1,000 jobs had been lost, then BSC closed the remaining facilities entirely, with a further loss of 3,500 jobs. In the ensuing two years, there was major contraction in other local manufacturing industries, most notably at RHP Limited (bearing manufacturers) where a further 1,250 jobs were shed in 1981.

At the time of the final steelworks closure, BSC accounted for over 12% of total local employment. The unemployment rate in north-west Durham was then already nearly double the average for Great Britain (15.5% against 8.3%) and the effect of the BSC closure was to send the local rate to just over 25%.

Special Expenditure

Consett was already a Special Development Area by the time of the final steel closure and therefore qualified for the highest level of regional aid. The area also attracts European Coal and Steel Community aid, especially low cost loans, and will be a special programme area under the European Regional Development Fund non-quota section.

As a steel-closure area, Consett received initial support from BSC Industry. A grant of £10 million was made for clearing and landscaping the steelworks site, and provided funds for advance factory building, special manpower measures and support for loss of rate income. The English Industrial Estates Corporation put



in £12.6 million over five years for a potential 650,000 square feet of advance factories capable of accommodating some 2,500 jobs. Over the three years to December 1983, £2.6 million was paid in selective financial assistance to 24 projects which accounted for 1,000 new jobs and safeguarded 160 more.

The Derwentside Industrial Development Agency was set up in 1982 on the initiative of BSC, with six staff. Its first objective was to maintain the momentum of industrial regeneration begun by the District Council and BSC Industry. Initial donations of £120,000 were provided by BSC Industry, the District Council and local firms. DIDA, in its first year, attracted 800 new jobs and plans to attract a further 1,000 this year. DIDA runs on a budget about one-fifth that of Corby for a population about 50% greater. Furthermore, Consett has no Enterprise Zone.

DIDA, in the commitment of its staff and in the results it achieves with few resources, is one of the more impressive agencies we visited. Its particular strength is in the evaluation and monitoring of projects whose sponsors have applied for aid.

The proponents of each potentially aid-worthy project are helped to produce a detailed business plan setting out forecasts of sales, jobs, product descriptions, markets and costs and including the curricula vitae of the directors. DIDA plans suggest that there will be about 3,500 new jobs over the next three years.

The Agency carries out an annual job audit, monitoring 180 companies and projects, each year, at about the end of March, every company is telephoned to check the number of people employed, performance against the plan and any necessary follow-up.

In summary, Consett is an example of what a well organised, low budget development agency can do to alleviate the worst effects of industrial contraction over a limited area. To classify it as successful requires us to overlook the fact that it has done no

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more than attract to Derwentside jobs which would have arisen elsewhere. As yet there is no pattern of firms taking root there which would give rise to hope that a new industrial structure, viable for the long term, is in process of creation.

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Special Expenditure

The whole of the western half of Scotland, and small patches on the eastern side are Assisted Areas. Large parts of Strathclyde and Fife are Special Development Areas. Livingstone and Glenrothes are new towns where similar benefits are available, while Clydebank additionally is an Enterprise Zone. These areas all receive the highest rates of regional aid available. The Western Isles, virtually the whole of the Highlands Local Authority and a large part of Dumfries and Galloway are classified as Development Areas, ie the middle of the three tiers of assisted area.

In 1982 the Scottish Assisted Areas received just over 25% of all regional assistance for Great Britain, whereas the whole of Scotland accounts for just over 9% of the GB population.

In addition, Scotland enjoys the services of the Highlands and Islands Development Board (see area report 6) and of the Scottish Development Agency (SDA) - statutory bodies which receive funding directly from the Scottish Office, but also channel Regional Aid in Scotland to candidate companies.

The SDA and HIDB are large scale development undertakings compared with those we visited in London, Corby and Consett. The SDA was established in 1975 to concentrate effort on four priorities: small businesses, the encouragement of inward investment, support for new technology, and area projects such as the Glasgow Eastern Area Renewal. It employs 730 staff headquartered in Glasgow.

The SDA's geographical remit is Scotland-wide, although its efforts are less intense in the HIDB area. The SDA owned net assets of just under £290 million in March 1983 - £260 million in property and £30 million in investments - and had income and expenditure of

£108 million in the year.

The scale of its investment in Scottish industry suggests an operation which verges on dirigisme. The SDA has investments in 677 small businesses and 858 larger companies. It owns 218 industrial sites and 27 million square feet of industrial accommodation. It sanctioned nearly 450 land renewal schemes in the 12 months ending March 1983.

The emphasis of SDA activity is now shifting away from estate management and towards marketing. The principal benefit which the SDA has to offer is the capacity for creating a "single door package". In other words, firms interested in coming to Scotland do not have to troop around to banks, property companies and a host of different government agencies. SDA is particularly anxious to attract in the newer technologies, particularly microelectronics and biotechnology. The Chief Executive of the SDA, Dr Mathewson, is keen to invest in an artificial intelligence institute as well. He felt, however, that there is a shortage of academic infrastructure, and he also noted that it was necessary to get more good financial men among academics so that the latter could be exposed to commercial disciplines.

Not surprisingly, SDA is prickly about rival inward investment promotions in other parts of Great Britain. Dr Mathewson in particular was worried that the DTI Invest in Britain Bureau might want to start restraining the SDA's own overseas promotion activities.

It is not clear what nett benefit the SDA has brought about. The monitoring of jobs obtained has been unsatisfactory, with the result that no useful figures are yet available. The capital cost per job secured works out in the region of £10,000, but such figures are, the SDA feels, rather misleading. Simply creating jobs is not the answer. "What we need are added value jobs". Our view is that even the approximate figure of £10,000 per job may be a serious understatement. The nine urban renewal projects described in the SDA's Annual Report and Accounts suggest that the cost per job for these

undertakings is in the region of £47,000.

Glasgow Eastern Area Renewal Project (GEAR)

GEAR is the most expensive of the nine SDA area projects. Its public sector budget of £200 million over ten years to 1986 is now expected to be nearer £300 million, and is more than the cost of all the other projects combined. The expenditure of £300 million public funds is expected to have produced private sector inputs of between £150 million and £200 million by the end of the project, at a cost to taxpayers and ratepayers of about £75,000 per acre or nearly £7,000 per resident.

Although GEAR is managed by the SDA, its public funding comes from no fewer than seven sources - Strathclyde Regional Council, Glasgow District Council, Scottish Special Housing Association, Greater Glasgow Health Board, Housing Corporation, Manpower Services Commission, and Scottish Development Agency itself.

The scale of the problem to be tackled is appalling. Population in the 4,000 acres of Glasgow's East End has fallen from 115,000 to 45,000 since the last war, and the area has become largely derelict. There was a concentration of industrial chemical pollution in the area. Educational standards there are minimal. The aims of the GEAR project are to retain and create jobs, to improve the quality of life and the environment, to create better housing, and to "involve the community". Some of these aims are intangible, which makes measuring success impossible. But even where specific targets could have been set, none has been - a familiar tale.

Richard Colwell, the SDA's Director of Area Projects, said that once the GEAR project has been completed it would be time to turn to the newly emerging black spots in the suburbs. Glasgow has four of these, each with a population of 40,000-50,000, each with dreadful housing. "We need to get there before the decline becomes as bad as it had been in the East End area." Yet, if expenditure to date on GEAR is any guide, we must set clear targets before embarking on any of these further projects.

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The GEAR project fully recognises the importance of land assembly and development as the key to urban renewal, and we can only applaud that. What is less clear is the SDA's role, longer-term, in the developed area. It should want to hand over to the private sector, in the manner of the Development Corporations in London and Liverpool; but we suspect that the area will continue to form part of the Agency's ever expanding portfolio of property and industrial investments.

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The Highlands and Islands Development Board covers a large area of remoter mainland Scotland (roughly the area north and west of a line joining Arran and Elgin) and the surrounding islands. The Board was established in 1965 "for the purpose of assisting the people of the Highlands and Islands to improve their economic and social conditions and of enabling the Highlands and Islands to play a more effective part in the economic and social development of the nation". What this means in action terms is unclear. As the Board itself says, in its 1982 Report, "the Board's remit to develop the area economically and socially is a very wide one and does not in itself help to identify a plan of action ... in publishing our strategic plan we seek only to show the activities on which we are placing importance at the present time." (!)

Like the SDA, the HIDB has and uses powers of investment in companies and projects, and of ownership of land. On its own smaller scale, it is no less dirigiste than the SDA.

The retention of population and the maintenance of incomes evidently figures as a high priority, and the favourite mechanism is industrial investment. As to population, in the 40 years to 1961, the number of people living in the HIDB area fell by nearly 20%, but in the 20 years since then the population has grown again by 16% to 350,000. In 1982, the unemployment rate, at 14.1%, was a little lower than for Scotland as a whole but a little above that for Great Britain as a whole. But long term unemployment was lower, at 28% of unemployed, versus 35/36% for Great Britain and Scotland.

In the ten years to the end of 1982, HIDB assistance at constant 1982 prices totalled £159 million. The corresponding contribution from the private sector was £258 million and overall gearing of 1.6:1 although in 1982 the contribution from private sources had produced a ratio of almost 2.5:1 the best the Board had achieved in the past five years. HIDB estimates that this investment has created

or retained more than 22,000 jobs at a capital cost, crudely measured, of £7,200 per job. By the end of 1982 the Board owned assets of £47 million, split roughly half and half between land or property and investments in companies. Its expenditure in the year was about £15 million.

Financial support gravitates naturally towards industry sectors already present in the HIDB area: fishing, timber, off-shore rig construction, woollen goods and tourism. There is no specific policy of attracting in novel sectors to the area, although reports have recently been commissioned on the prospects for biotechnology and health care industries in the HIDB area. The scale of new employment opportunities open to HIDB is clearly inadequate to cope with major industrial closures - the pulp mill at Fort William, the aluminium smelter at Invergordon and the threatening shortage of rig work at Highland Fabricators in Nigg Bay.

Even though job creation is a prime objective of the Board, the monitoring of jobs created is not as good as it should be. After five years, the Board takes firms it has assisted off its books because it would be "too time-consuming to keep in touch with every guest house, fish farm and boat". There is, however, an annual audit of jobs in Board factories.

It is not clear that the underlying objectives of maintaining a certain size of population or of maintaining a certain level of average income are in themselves worthwhile. Is it actually undesirable that sparsely populated areas become somewhat more sparsely populated? Does the maintenance of a population by subsidy not tend to generate demands for yet more subsidy, for instance on infrastructure projects? Members of the HIDB were certainly keen to have better telecommunications and more roads like the A9 highway to Inverness. As a political cosmetic, however, we have to rate the activities of HIDB highly. Expenditure of as little as £15 million per annum on such a large geographical area is valuable, if only because withdrawing it could send worrying signals to the more southerly, more heavily populated regions of Scotland.



Prime Minister

To note. (I will ~~not~~ discuss with John what work is needed for the next Industry and Employment seminar)

This is very generalised  
= =  
- Some of its proposals  
17 April 1984  
can be followed up.  
not

PRIME MINISTER

AT 18/4

DEREGULATION AND SIMPLER GOVERNMENT

Discussed with J.R.  
Action as below  
↓

The Policy Unit has been reviewing in outline the policies, administration and future thrust of the principal Departments of State. Our first conclusions are that government is still tied up in too many areas it should not be in. It is regulating too many things; administering too complex a system of taxes and benefits; overlapping with local authority activities; and retaining some functions which could pass easily to the private sector.

Regulation

Department of Transport, MAFF, Energy and DTI have substantial regulatory departments. Within these labour-intensive functions there are some kinds of regulation which sit uneasily with the Government's general approach to economic activity and which could be abolished without undue political difficulty. Some examples of these are:

1. Public transport route licensing. Nicholas Ridley is currently examining the scope for deregulating the bus industry and may come up with radical proposals. There is every reason to do so to create a more efficient and responsive industry. Up to 2,000 jobs could be saved if the reform was whole-hearted, and a more flexible and responsive bus industry was created.
2. Vehicle licensing. Driver licensing has already been simplified by going over to the lifetime licence. Vehicles could be issued index numbers and a licence document, which was also a title deed and moved with changes of owner. The annual, or 4-monthly road licence could be abolished, and the additional revenue collected through VAT on petrol. Some 5,400 people are currently employed by Swansea DVLC, and many of these jobs could be saved.
3. Regulating companies and administering insolvency. Some 4,000 people are employed at DTI. The forthcoming reform of Insolvency Law and amendments to Companies Law should be reconsidered - they are already running into substantial trouble, as they are too dirigiste and will damage enterprise - in such a way that reduces the regulatory burden on central government. The main burden of regulating companies should fall on the common law system, and on the audit profession.

Coming to E(A)

Treasury and D'Top are reconsidering

AT to speak to DTI, seeking a report on outcome of consultations and DTI view.

Policy Unit to react to outcome of current financing round

- 4. North Sea licences. The Department of Energy persists in regulation. All it need do is hold an auction for every licence block allocated, thereby receiving money and cutting down the burden of regulatory intervention in the oil market.
- 5. Agriculture. Market regulation employs some 750 people at MAFF. As the price mechanism is brought to bear, there will be scope for reducing this regulatory burden.

To be fact with MISC 100

Administrative Complexities

The bulk of the administrators in Government are employed either in collecting taxes (100,000 people) or in distributing benefits at the DHSS (the bulk of 94,000 people). The drive towards tax simplification and the raising of tax thresholds should reduce the requirement for Inland Revenue staff. The Norman Fowler reviews should also be used as an opportunity to simplify the benefit structure to economise on the administration of the mish-mash of welfare benefits. For example, 28,265 people are involved in distributing unemployment benefit through Unemployment Benefit Offices. Another 64,000 people are involved in the payment of Supplementary Benefit through the separate DHSS offices. All benefits should be paid through DHSS offices.

PU to spell out further for PM

There has been looked at before. The building work would be considerable

The £1.5 billion overhead at the DHSS seems excessive by any standards, and is the result of undue complexity. Computerisation is a challenge which should run in parallel with policy changes to simplify benefits.

Overlap between Local Authorities and Central Government

At both the DES and the DoE, there is a certain amount of overlap between what local government does and what central government does.

Take the case of the construction of a new school. The local authority decides on the desirability of a new school, locates the site, and has an architects' department that draws up the design. This then has to be checked and counter-checked by architects, financiers and others at the DES. It would be quite possible to leave the task to the local authority, confining central government control to a general financial control, and leaving the local authority free to decide on the detail of the schemes it wishes to purchase. It would also be possible to leave school closure entirely to local decision. Keith at the moment has to endorse unpopular decisions on appeal, or else prevent local authorities from carrying out his own policy. This would also have the added attraction of providing a counter

To be dropped

No

SECRET

- 3 -

example to the run of cases in government policy recently, where local authority autonomy has been restricted.

#### Other Policies

Considerable numbers of people in government are involved in "sponsorship" of a range of industrial activities. As these industrial activities are returned to the private sector, the requirement for sponsorship should cease, and the people could be redeployed elsewhere. Similarly, an accelerated programme of council house sales would bring in its wake considerable benefits in the form of administrative savings. A suitable case for privatisation would be MAFF's research and advisory services. These currently employ 6,600 people at the public expense, and their services often duplicate those provided by the fertiliser manufacturers and private consultancies.

To be fed into  
MISC 100

#### Conclusion

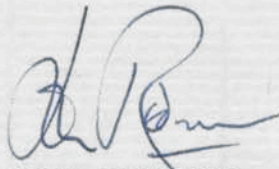
It would not be difficult to make a popular case for <sup>some</sup> many of the points in this note. Dealing with the local/central government overlap by increasing local autonomy would win us back some friends. Getting rid of targeted regulations of the type described above would be welcomed by many, both amongst the ranks of the customers and the producers. Simplification of tax and benefits is already a commitment and is vital to the central task of reducing the complexities of modern government.

The question of deregulation in the Department of Transport, Ministry of Agriculture, DTI and Department of Energy could be taken at the next seminar on Jobs and the economy. Andrew could organise some paperwork from the departments on their plans.

The central/local government overlap could be dealt with in correspondence from Andrew to the DES and the DoE seeking their views on how to proceed.

Tax and benefit simplification is under review already.

The Research Advisory Services in Agriculture should be discussed when the current review on agriculture sees the light of day.



JOHN REDWOOD

MINAAZ

SECRET

Police - believe bond high

Meeting - Nov prepared to agree to a  
heath

para 4 - if - discuss modality

Advice Joe Ambrosio -

Dec. in principle

high - 7 days -

//

~~Amendments~~ =

Prime Minutes ②

To note AT 13/4

Industry Employment  
Summary file

ec B 1

13 April 1984

MR TURNBULL

JOBS

I have recently been visiting some UK companies to hear their views on the working of the labour market.

In each case I sought information from them without prompting them in the first instance, to see what was most on their mind.

At Securicor, the dominant concern was the impact of the Employment Protection legislation. Securicor have recently reduced their staff, despite being in a fast-growing market sector. They have invested in more high technology surveillance and computer systems to replace people. They feel their staff numbers should now stabilise, but would not take on more people because of the potential redundancy costs and difficulties.

At Grand Metropolitan (brewing, dairy products, hotels and pubs) they see the main impediments to their business in a range of licensing regulations. They find the gambling controls on bingo unduly restrictive, and are strong opponents of the restrictions on pub licensing hours, and trading hours generally. If these licensing restrictions were relaxed, they would take on more people and keep their premises open for longer hours to offer more service.

At Trust Houses Forte (Grosvenor House Hotel) they have been recruiting more people in order to improve the quality of service. They are particularly keen to recruit young people whom they can train themselves in the way they wish. They find the minimum wages for young people fixed by the Wages Council at £65 a week are too high, and it does put them off recruiting as many as they would like. They point out that the £65 a week can be augmented by up to £20 a week in tips, and that this is a good wage for a 17-year-old living at home.

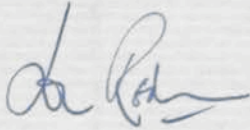
After getting these first reactions, I then probed on some of the issues. In the catering trades, Grand Met had put one of their people onto a Wages Council. They thought the meetings were on the whole badly run, often badly chaired, and infrequently had the right information in front of them. They would not bemoan their loss. Trust Houses were much more vehement in their condemnation of minimum wage-fixing.

None of the businesses expressed any shortage of demand or argued the case in favour of reflating the economy. Trust Houses are particular beneficiaries of a strong dollar

MINAAB

exchange rate, and a high proportion of their business comes from American visitors. They admitted that the UK-based business trade was also picking up, and at the Grosvenor House, occupancy rates were well over 80 per cent, which is very good. All three companies agreed that the Budget changes would lead to some modest acceleration in their capital investment programme, and welcomed the abolition of the NIS once prompted.

The milk division of Grand Met has no great love for the Milk Marketing Board arrangements, and raised the question spontaneously about whether there might be scope for abolition and about the need for the manufacturing industry to express views on what would take their place if this item ever came on the agenda.



JOHN REDWOOD

Incident Employment  
Summary file

(4)



10 DOWNING STREET

Prime Minister

This letter responds to your suggestion that Co Churches might help by bringing YTS trainees to be Scots by providing accommodation. It points out that there is still surplus capacity in the North. See Table at X

AT

9/4



Caxton House Tothill Street London SW1H 9NF

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

Switchboard 01-213 3000

Andrew Turnbull Esq  
 Private Secretary  
 10 Downing Street  
 LONDON SW1

9. April 1984

Dear Andrew,

#### EMPLOYMENT

See Pt 1  
 I am writing to take up two points recorded in the final paragraph of your 27 March letter on the Prime Minister's discussion with my Secretary of State earlier that day.

The first point concerns Special Employment Measures. We have started our regular annual review of these, in which the Treasury and other Departments are involved and Mr King will be aiming to report his conclusions to the Prime Minister's 25 May meeting.

... The second point concerns the spread of YTS occupancy around the regions. We have already sent you - but I attach a further copy now for convenience - a summary of the position as at 29 February. The total occupancy then was some 259,000. I should explain that this is the figure of those actually in the Scheme at that time and is different from the total figure of entrants to the Scheme since it started last year. The entrants figure, which is the one we tend to use publicly, now stands at 342,000. It is not right to conclude - as did the Guardian report of 4 April - that all 83,000 young people (ie the difference between the two figures) have become unemployed; some will have gone into jobs, others will have gone into further education and yet others will have moved from one YTS scheme to another. The most recent survey - of a 10% sample of those leaving schemes up to the middle of November 1983 - indicates that 3 months later nearly 40% of these early leavers were in jobs, nearly 30% were in other YTS schemes and less than 25% were at that point unemployed. I have attached a detailed note dealing with the Guardian article.



CONFIDENTIAL



As you can see from the table, while the proportion of unfilled places is highest in the southern areas there are also plenty in the north of England, Scotland and Wales - in fact more in absolute numbers. The problem is therefore less one of maldistribution than of general over-provision. This is being rectified for 1984/85 as we get a better idea of the numbers coming forward than was possible in the first year of the Scheme.

Arrangements do exist for youngsters to live away from home where no suitable training place is available within daily travel distance. Help is also available for those willing to take jobs in other areas which cannot be filled locally. But MSC do not offer any special inducements to young people to leave home for training places elsewhere simply in hopes of better job opportunities. Given the shortage of jobs for young people almost everywhere, this would entail difficult judgements and explanations (including the aspect of removing unemployed 16 year olds from parental supervision), and might be thought to imply some guarantee of a job in the new location - which MSC would be in no position to give.

As to the role of the churches in the Scheme, 11 clergymen are members of MSC Area Manpower Boards - two of them as Chairmen. Churches are quite often involved as direct sponsors of schemes, or as members of local groups and associations running schemes. They also provide project-based work for other organisations. Examples of church-run schemes include the Worcester Community Action Programme, which is an Anglican programme which will provide 115 training places in 1984/85; the Methodist Youth Skills Training Agency in Smethwick, with 100 places; and the Roman Catholic Hexagon project in Liverpool with 120 places. But we are, of course, always on the look-out for new ways in which they can be asked to help.

*Yours sincerely*

*David Normington*

D J NORMINGTON  
Principal Private Secretary

THE YOUTH TRAINING SCHEME - OCCUPANCY RATES BY SCHEME TYPE - 29 FEBRUARY 1984

REGION	MODE A			MODE B			MODE B2			TOTAL		
	APP-ROVED PLACES	IN TRAINING	OCCUPANCY RATE	APP-ROVED PLACES	IN TRAINING	OCCUPANCY RATE	APP-ROVED PLACES	IN TRAINING	OCCUPANCY RATE	APP-ROVED PLACES	IN TRAINING	OCCUPANCY RATE
Scotland	33,534	20,910	62%	10,122	7,092	70%	2,264	1,435	63%	45,920	29,435	64%
Northern	16,768	10,514	63%	8,056	5,523	69%	3,931	2,726	69%	28,755	18,763	65%
N. West	44,405	25,570	58%	16,492	10,223	62%	4,322	2,344	54%	65,219	38,137	58%
Yorks & Humbs	29,300	18,057	62%	8,823	5,025	57%	5,842	3,539	61%	43,965	26,621	61%
Midlands	65,889	37,827	57%	19,620	11,009	56%	4,425	2,533	57%	89,934	51,369	57%
Wales	15,663	10,140	65%	6,055	4,377	72%	2,619	1,813	69%	24,337	16,330	67%
S. West	27,484	16,420	60%	5,277	3,379	64%	860	439	51%	33,621	20,238	60%
S. East	59,065	33,314	56%	10,413	6,111	59%	4,949	2,626	53%	74,427	42,051	56%
London	28,152	12,713	45%	5,565	2,582	46%	2,461	1,043	42%	36,178	16,338	45%
Great Britain Total	320,260	185,465	58%	90,423	55,319	61%	31,673	18,498	58%	442,356	259,282	59%

(Copy attached at flag A)

1. 83,000 trainees leave Scheme - and is a major contributor of youth unemployment.

1.1. Background: 83,000 is the difference between the total number of entrants to YTS at the end of February (342,317) and the number in training at the same date (259,282).

1.2. Points to make:

- It is not true to say all 83,000 have become unemployed; some will have gone into jobs; others will have gone into further education and some will have moved from one YTS scheme to another.
- The most recent survey, a 10% sample of those leaving schemes <sup>of November</sup> up to the middle/last year, indicates that 3 months later nearly 40% of these early leavers were in jobs, nearly 30% in other YTS schemes and less than a quarter were at that point unemployed.
- It may be that some eligible youngsters have been put off by a negative attitude such as that contained in this article. But over a quarter of a million youngsters currently in training see the benefit of taking part in a quality training scheme.

2. With 204,300 unemployed 16 and 17 year olds it is unlikely many YTS leavers will have found jobs.

2.1. Background: The figures quoted for unemployed 16 and 17 year olds in January (204,300) are for the United Kingdom as a whole (GB figure 198,200). Comparative figure for January 1983 for GB was 221,700. YTS figures are GB (Northern Ireland has a separate scheme).

2.2. Points to make:

- Any snapshot figure of the unemployed includes many in the

process of moving between jobs, or between YTS schemes, and from YTS to jobs.

- The figure will include Christmas school leavers in Scotland who had only recently joined the register.
- Others may have registered for benefit late.
- Many of the 17 year olds will not be eligible to join or re-enter the Scheme.

3. Exodus is taking place in spite of the penalty imposed by DHSS on supplementary benefit.

3.1. Background: Young people who unreasonably refuse the offer of a suitable training place, or who leave the Scheme without good cause, may have their benefit reduced for a period of up to 6 weeks. The position is exactly the same if they refuse or leave a job. The figure quoted of 4,826 is the correct figure for the UK as a whole and covers the four month period December 1983 to March 1984 (copy of DHSS PQ attached at flag B).

3.2. Points to make:

- YTS is of course a voluntary scheme; like taking or leaving a job is voluntary.
- Youngsters who unreasonably refuse or leave YTS are treated in exactly the same way as their peers who unreasonably refuse or leave a job.
- Young people when they leave school and enter the adult world begin to have the same rights and freedoms as adults; they also begin to have the same responsibilities and have to live with the results of their own actions.

4. The £25 a week allowance - a deterrent to potential trainees.

4.1. Background: The £25 per week allowance has been paid since the

start of the Scheme in April 1983 and was previously paid under YOP since January 1982. It was announced on 9 March 1984 that the "block grant" to Managing Agents - which covers the cost of the allowance, plus a contribution to the cost of training and administration - will be increased by 5% (from £1950 to £2050) from 1 September 1984. The Commission will make recommendations to Ministers in the summer as to how the increase should be apportioned between the allowance and other costs. [There is absolutely no presumption by Ministers that the allowance will necessarily be increased.]

4.2. Points to make:

- The level of allowance recognises the status of young people on the Scheme as trainees rather than full time productive workers.
- It also reflects the benefit of the training they are receiving.
- The Government announced that from 27 February 1984 the threshold above which young people on the Scheme could be reimbursed travelling expenses will be reduced from £4 to £3 per week.
- Any increase in the allowance would mean less money available for training.

5. Budget for YTS will increase next year to £875 million yet this represents a cut of £100 spent per trainee.

5.1. Background: We do not recognise the £774.3m figure quoted. The original budget for YTS/YOP in 1983/84 was £900m including administration. This provided for 460,000 entrants to YTS (ie £1960 a head). The corresponding figure for 1984/85 is £873m, which provides for 420,000 entrants (ie £2080 a head). In fact, it is not strictly correct to divide the overall budget provision by the number of potential entrants to derive a unit cost. However, if this is done, an increase of some £120 is indicated.

5.2. The Minister of State announced on 9 March 1984 an increase of 5% in the block grant to managing agents. This will mean an additional £100 per trainee with effect from 1 September 1984.

5.3. Points to make:

- A reduction in the amount spent per trainee as suggested is quite untrue.
- Indeed the Government have announced that the block grant to managing agents will be increased from 1 September by 5%. This means an additional £100 spent per trainee.

## 83,000 trainees quit scheme early

By David Hearst

A total of 83,000 teenagers—one in four of those who joined the Youth Training Scheme—have dropped out within the first six months of it starting.

Mr Gordon Brown the Labour MP for Dunfermline East will press Mr Tom King, the Employment Secretary to launch an inquiry into why the 83,000 left the year long scheme early and what has happened to them since. Last January's figure for the number of 16 and 17-year-olds registered unemployed, 204,300, was one of the highest in recent years and Mr Brown said: "My suspicion is that the exodus from YTS is a major contributor to youth unemployment."

When the scheme was launched last September the Manpower Services Commission, which runs it, said it aimed to train 480,000 school leavers. In fact, only 342,317 had registered last year and of these 257,282 were left by the end of February.

The Department of Employment was unable to say yesterday how many of the 83,000 had got jobs, gone into further education or switched from one part of the scheme to another. A spokeswoman said a breakdown of the figures would be published next month. But Mr Brown said that with 61,433 16-year-olds and 142,860 17-year-olds registered as unemployed in January, it was unlikely many of the YTS leavers had found jobs.

The exodus is taking place in spite of the heavy penalty imposed by the Department of Health and Social Security on trainees who leave of their own accord. In reply to a parliamentary question from Mr Brown, Dr Rhodes Boyson, Minister of Health, disclosed that 4,828 youths had their supplementary benefit cut by 40 per cent from £18 to £9.90 a week as a result of leaving the scheme early since December.

Mr Brown said: "If this is the number the DHSS have managed to pick up, how many more trainees are now straight back onto the dole queue?" Mr Brown said his major concern was to find out whether the £25 a week allowance was a deterrent to potential trainees.

The MSC has to decide in May what the allowance will be next year.

It hopes to expand the numbers of trainees to 400,000 next year, including trainees on the young workers scheme. But the budget for the scheme will go up from £774.3 million to £875 million, which would represent a cut of £100 in the money spent on each trainee.



*Industry & Employment  
Senior file*

Caxton House Tothill Street London SW1H 9NF

6400

Telephone Direct Line 01-213.....

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Andrew Turnbull Esq  
Private Secretary  
10 Downing Street  
LONDON  
SW1

9. April 1984

*Dear Andrew,*

... I attach two briefing notes for the Prime Minister for Panorama this evening, on YTS and youth employment; and on relative pay and youth employment.

*Yours sincerely*

*David Normington*

D J NORMINGTON  
Principal Private Secretary





## YTS AND YOUTH EMPLOYMENT

### 1. The position of this year's school-leavers

- Roughly the same number stayed on in full-time education
- Some 50,000 more obtained jobs than expected both within the Scheme and outside it. A welcome sign that the economy is more buoyant.
- Those leaving school at minimum age had a guarantee of an offer of a place on the Scheme by Christmas. This undertaking was effectively met; all but 4,300 youngsters had received an offer - some 1,800 of whom were under consideration. The majority of these have now had an offer.
- The total number in training on the Scheme at the end of February was 259,282.
- As a result of improved job prospects and benefit of the Youth Training Scheme there were some 20,000 fewer claimant school leavers unemployed in January 1984 than in January 1983.

### 2. What about the 198,200 unemployed 16 and 17 year olds (January figure)

- There are many young people between jobs, between YTS schemes or between YTS and a job. There is always a lot of movement amongst young people on the labour market.
- Many of the 17 year olds will have already been on the Youth Opportunities Programme.
- Scottish Christmas school-leavers will be included in the figure, and will have only recently joined the register.
- Others may have registered for benefit late.



- 2 -

3. What has happened to those leaving the Youth Training Scheme

- A small sample of those leaving the Scheme up to middle of November shows that, 3 months later:-

- nearly 40% were in jobs

- nearly 30% were in other YTS schemes

- only some 25% were unemployed, and some of these will be waiting for a job, further education or a further YTS scheme.

DEPARTMENT OF EMPLOYMENT

9 April 1984



## RELATIVE PAY AND YOUTH EMPLOYMENT

1. For both sexes, and for all single years of age, young people's earnings in 1983 were a smaller proportion of the equivalent adult earnings than in any of the preceding five years (see Table attached). This new trend, which appears to have begun four or five years ago, is a reversal of the progressively narrowing differentials between youth and adult earnings seen over the previous 25 years or so.

2. The reasons for this new trend are not clear yet but it undoubtedly has something to do with the sharp rise in unemployment over this period which has affected young people in particular. What impact the Government's special employment and training measures have had - some of much more recent origin - is not known but we believe that the Young Workers Scheme, into which 1983 entrants were higher than expected, will have had some influence.

Average gross weekly earnings\* of full-time male employees under 21  
a percentage of the corresponding figure for males aged 21 and over :  
at April each year

AGE AT JAN 1	16	17	18	19	20
1978	34.9	43.0	53.9	61.2	68.9
1979	34.6	42.9	53.6	61.2	68.0
1980	34.2	41.7	53.4	60.3	68.4
1981	34.4	41.2	50.5	59.3	65.3
1982	33.7	40.5	49.9	56.8	65.6
1983	32.0	38.7	49.3	56.3	63.2

Average gross weekly earnings\* of full-time female employees under 21  
as a percentage of the corresponding figure for females aged 18 and  
over : at April each year

AGE AT JAN 1	16	17	18	19	20
1978	51.8	59.0	70.2	76.2	82.6
1979	54.2	60.0	71.3	77.1	83.0
1980	60.3	59.6	69.5	76.1	82.4
1981	50.7	57.4	68.7	74.3	79.0
1982	48.2	56.5	66.9	73.3	78.6
1983	47.0	52.9	64.3	72.2	77.4

\*Excluding those whose pay was affected by absence

Source : New Earnings Survey

PRIME MINISTER

Employment/Unemployment

Following your meeting at Chequers a number of pieces have been sent in.

I Enterprise Allowance - Annex A

Tom King has now written to the Treasury, seeking agreement to an extension of the Enterprise Allowance scheme in order to allow it to meet demand. This will not be resolved before Monday.

II Position of Young People in the Labour Market - Annex B

The Manpower Services Commission have sent in notes which show the following:

- (a) jobs for 16 year olds, inside and outside the YTS, have increased by about 50,000 over the corresponding level a year earlier;
- (b) unemployment among school leavers under 18 has fallen by 17,000 over the past year;
- (c) total unemployment among under 18s has also fallen by 17,000.
- (d) earnings of employees under 21 have fallen by up to 5 percentage points as a percentage of full-time adult earnings.

III Paper from Professor Peacock - Annex C

Alan Peacock has sent in a note setting out the arguments and the evidence on why a shorter working week is no solution to the problem of unemployment. Even if you are unable to deploy this on Panorama, there will no doubt be other opportunities.

IV Papers from Sir Douglas Hague - Annex D

Sir Douglas has sent a copy of his Mond lecture given in March this year. You might like to look at two sections, pages 3-7 in which he discusses the future of work; and pages 15-17 in which he discusses the ABRC. The latter section will be relevant to the discussion you are having in early May with Sir Keith Joseph and Sir David Phillips on priorities in the science budget. As you will see, Sir Douglas is not impressed with the present arrangements. In his view, the ABRC is not clear on whether its role is to promote science or to be an arbiter on the allocation of scarce resources in the science budget.

On the future of work, Sir Douglas has drawn on the work of Dr. Gershuny. They argue the need to break away from the stereotype of work which is:

- a male manual worker
- goes to work in a large factory
- makes something tangible
- works a 40 hour week plus some overtime
- belongs to a union and possibly a closed shop

Sir Douglas argues that all these facets are becoming less and less true.

- there is an increasing proportion of women in the labour force, from 31% in 1961 to 40% in 1981. The proportion of manual workers has fallen from 62% to 50%.
- The trend towards working in large units is being reversed and will be accelerated as information technology permits greater de-centralisation.
- Employment in the manufacturing sector has declined from 38% in 1961 to 27% in 1983.
- There is an increasing proportion of part-time working particularly among women but also among men.
- Trade union membership is in decline. The trend of

the 1960s and 1970s towards increased trade union membership and increased coverage of closed shops has now been reversed.

Sir Douglas draws attention to the tendency or necessity to work in the official economy is in decline. The official economy is in competition not just with the black economy but with the domestic economy. The growth of consumer durables such as washing machines and vacuum cleaners means people can undertake more tasks themselves; the car provides personal mobility and less reliance on public transport; televisions and video provide more home entertainment; the computer and telephone will increase opportunities for working at home, receiving education at home and shopping from home.

You could deploy these ideas on Panorama by arguing that we must break away from old stereotypes of the labour market. Unemployment is not cyclical. It is not due to a fall in demand and new jobs will come not from boosting demand to allow people to return to their old jobs. There is a process of massive transition. We must look forward to new styles of working rather than turning back the clock. While this process is generating high unemployment now it is opening up huge opportunities for the future.

AT

6 April 1984

Your ref:

Our ref:

Date:

6 April, 1984



Manpower  
Services Commission

B

Professor Sir Alan Walters,  
10 Downing Street,  
London, S.W.1.

Selkirk House  
166 High Holborn  
London  
WC1V 6PF

Telephone: 01-836 6126

**Chairman: David Young**

*Dear Professor Walters,*

Please find attached the background information you requested on young people in the labour market. I hope these paragraphs are useful but if there is anything else you would like to know, please come back to me.

Also enclosed for your information is a copy of a letter from Geoffrey Holland, Director of the MSC, responding to The Guardian article on 4th April on the Youth Training Scheme.

I am copying this correspondence to Andrew Turnbull and Michael Quinlan.

*Yours Sincerely*

A handwritten signature in cursive script, appearing to read 'Ian Chapman'.

Ian Chapman  
Private Secretary



## EMPLOYMENT TRENDS FOR YOUNG PEOPLE

DES have issued estimates of the status of young people in January 1983 and January 1984. These data, in table 1, are agreed by MSC and DE.

The positive point, which is not immediately obvious from the table, is that jobs for 16 year olds, inside and outside YTS, have increased by about 50,000 over the corresponding level a year earlier. This improvement in employment opportunities has occurred almost entirely because of 16 year olds brought within the scope of YTS. Employment of 16 year olds outside YTS appears hardly to have changed and employment of 17 year olds to have increased only slightly.

Unemployment among 16 year olds is slightly down, as it is also for school leavers, over last year. The positive point here is that the MSC met the school leaver undertaking with only about 5,000 unemployed 16 year old school leavers waiting to be offered a place in January. A rough breakdown of the total January 16 year old unemployed of 110,000 is given below:

Guarantee group still to be offered a place	5,000 (4,000 rounded to nearest 5,000)
Guarantee group waiting to start YTS	10,000
Ex-employees back in unemployment	45,000
Others - including YTS leavers who have returned to unemployment; those offered a place but who have declined and some post-Christmas school leavers over minimum age	50,000
<u>All 16 year old claimant unemployed (Jan '84)</u>	<u>110,000</u>

(The large numbers in the last two groups illustrate the considerable movement of young people between employment, unemployment and YTS and why so many were found to be unemployed in January.)

There is no evidence that youth employment is rising more strongly or youth unemployment falling more rapidly in

..../Cont.

the South East, though given the recovery in the labour market it may yet happen.

On relative pay, the evidence in table 2 is of widening differentials between the earnings of adults and those of young people. Right across the board - for both sexes and for all single years of age - young people's earnings in 1983 were a smaller proportion of the equivalent adult earnings than in any of the preceding five years. This new trend, which appears to have begun four or five years ago, is a reversal of the progressively narrowing differentials between youth and adult earnings seen over the previous 25 years or so.

The reasons for this new trend are not clear yet but it undoubtedly has something to do with the sharp rise in unemployment over this period which has affected young people in particular. What impact the Government's special employment and training measures have had - some of much more recent origin - is not known but the Young Workers Scheme, into which 1983 entrants were higher than expected, must have had some effect.

TABLE 1

EDUCATIONAL/LABOUR FORCE STATUS OF YOUNG PEOPLE JANUARY 1983 AND JANUARY 1984 :  
GREAT BRITAIN

Thousands

	Age 16 (1)		Age 17 (1)	
	13 JANUARY 1983	12 JANUARY 1984	13 JANUARY 1983	12 JANUARY 1984
		(Provisional)		(Provisional)
Population	910	900	930	910
Full-time education	440	400	290	280
- schools	290	280	180	170
- Further Education (2)	150	120	110	110
Labour Force	470	500	640	630
- YTS/YOP	170	220	70	50 (3)
- Claimant Unemployed	130	110	160	160
- Residual (4)	170	170	410	420

- NOTES (1) Age as of 31 August of the preceding year *ie these are cohort figures not figures of under 17's, under 18's on a particular day.*
- (2) Excluding YTS/YOP
- (3) 35,000 on YTS and 15,000 on YOP
- (4) Largely those in employment outside of YTS, but also including some who were unemployed and not claiming benefit or who were economically inactive (estimated at 25,000 16 year olds and 40,000 17 year olds).

TABLE 2

Average gross weekly earnings\* of full-time male employees under 21  
a percentage of the corresponding figure for males aged 21 and over :  
at April each year

AGE AT JAN 1	16	17	18	19	20
1978	34.9	43.0	53.9	61.2	68.9
1979	34.6	42.9	53.6	61.2	68.0
1980	34.2	41.7	53.4	60.3	68.4
1981	34.4	41.2	50.5	59.3	65.3
1982	33.7	40.5	49.9	56.8	65.6
1983	32.0	38.7	49.3	56.3	63.2

Average gross weekly earnings\* of full-time female employees under 21  
as a percentage of the corresponding figure for females aged 18 and  
over : at April each year

AGE AT JAN 1	16	17	18	19	20
1978	51.8	59.0	70.2	76.2	82.6
1979	54.2	60.0	71.3	77.1	83.0
1980	60.3	59.6	69.5	76.1	82.4
1981	50.7	57.4	68.7	74.3	79.0
1982	48.2	56.5	66.9	73.3	78.6
1983	47.0	52.9	64.3	72.2	77.4

\*Excluding those whose pay was affected by absence

Source : New Earnings Survey

4th March, 1984

The Editor,  
The Guardian,  
119 Farringdon Road,  
London, E.C.1.

Sir,

Your front page article on 4 April on the Youth Training Scheme was both inaccurate and misleading.

It is true that a number of young people have left individual training programmes covered by the Scheme. They have done so for a number of reasons. Some changed their programmes within the Scheme. Up to a third of young people who have left programmes early come within this category. Many others we know have left for jobs outside the Scheme. These two groups between them account for most of the young people who are known to have left individual training programmes by the end of February.

Next, it was never expected that 480,000 young people would join the Scheme - the figure has no factual basis. YTS has not failed to attract large numbers of young people who qualify for it. Some 350,000 young people have joined the Scheme by now. The total numbers of unemployed young people outside the Scheme which you quoted included many who are ineligible to join and others who have joined since the unemployment count was taken and, of course, many who are between jobs. Finally, money to be spent on trainees is going up by £100 from September - not down by that amount.

Yours sincerely,

(Geoffrey Holland)

A C 5

# The University of Buckingham

Buckingham MK18 1EG, England Telephone: Buckingham (0280) 814080

From the Vice-Chancellor: Professor Alan Peacock, DSC MA FBA

2nd April, 1984

The Rt.Hon. Mrs. Margaret Thatcher,  
Prime Minister,  
10 Downing Street,  
LONDON S.W.1.

*Dear Prime Minister,*

*R34*

I must thank you most warmly for inviting me to Chequers on Sunday last. I have taken to heart your suggestions about looking for contract work on employment problems from governmental sources as a way round our inhibitions about taking grant finance. Perhaps David Young might be interested in having us monitor the Enterprise Allowance Scheme once it is further on its way, and I shall be writing to him about this.

I have really been acting as honest broker in trying to establish our Employment Research Centre for I am, strictly speaking, more in the public finance field than in employment. The Fowler Committee on Retirement, of which I am a member, is keeping me very busy and its findings have some bearing on the employment problem, but otherwise I must rely on my colleagues to do the really hard work which the Centre will require.

I have had one sortie into the employment field recently which may be of interest and possibly of help if you are asked on Panorama about socialist proposals to improve employment conditions. My German colleagues are fighting a tremendous battle against the German Unions' demand for a compulsory 35 hour working week as a solution to the employment problem. They asked me to report on the British discussion. I know that you are familiar with the rebuttal of the TUC proposals which closely follow those of their German brothers, but I adopt a slightly different tack from Sam Brittan as will be evident in the attached note. If nothing else, the summary of the empirical evidence on page 7 may be of immediate use.

Yours very sincerely,

*Alan Peacock*

Alan Peacock

Enc.

Written in November 1983

REDUCING THE WORKING WEEK TO IMPROVE EMPLOYMENT -  
THE BRITISH DISCUSSION

Alan Peacock

I. Introduction

I come from a country which has had the highest rate of unemployment - over 12% of the labour force - of all major industrial countries and one where, traditionally at least, governments have been much more sensitive to unemployment percentage rates than to inflation. It will therefore come as no surprise for you that the German discussion of solutions to the unemployment problems have their close parallel in the UK. Likewise there is intense disagreement about the aims of economic policy, including the trade-off between inflation and unemployment, the precise ways in which unemployment is caused, and in consequences about the measures which governments should adopt. This disagreement, therefore, is not simply an ideological one, though ideology plays its part.

The reduction in the working week as a method of curing unemployment has had perhaps less prominence in the UK than in W. Germany. It is certainly a major item in the employment strategy of the Trade Unions, as in W. Germany, but it has never been considered a cure-all. As I shall indicate, it is part

of a package of medium term measures built round an essentially Keynesian  
view of how the economy works and how its performance should be improved.

On the other hand, the 35 hour week solution has received little if any  
support from professional economists including those who have strong sympathy  
with the Labour movement.

## II. The TUC Proposals

The TUC proposals are dominated by what is sometimes called the 'New  
Cambridge' view of the economy. The economy should be kept in a state of high  
aggregate demand as a way of stimulating output, a large part of this demand  
originating in the public sector in the form of infrastructure investment,  
energy and housing. The balance of payment effects of demand would be dealt  
with by selective import controls and by the use of the exchange rate as a  
policy instrument, ie. devaluation. Competitiveness abroad, therefore, depends  
on the manipulation of the exchange rate. Competitiveness at home is not a  
necessary prerequisite for efficiency which depends upon coordinated government  
planning of industry. This is a familiar form of argument, and I have no  
intention on offering a critique on it.

At the same time, the TUC view of the economy accepts that high  
aggregate demand and the hoped-for economic growth which accompanies it will  
not ensure a satisfactory level of employment by itself. In their economic



review for 1983, entitled The Battle for Jobs, a target is set for the creation of 3.5 million extra jobs. If there were no reduction in working time, so it is claimed, this target would require an annual growth in output of 5%, consisting of a growth in employment of 3% per annum and 2% annual average growth in productivity. However, the employment target could be met with less onerous productivity growth requirements if working time were reduced. To quote this document:

"If some of the benefits of increased productivity were taken in increased leisure as opposed to extra incomes for those in work, then each increase in output would create proportionately more employment. More workers can clearly be employed if they are working 35 hours per week, with no overtime, as happens too often at present. The TUC's objective is therefore to reduce working time by 10 per cent over 5 years ..... The TUC estimates that given changes in working practices and increased production, one half of this reduction in working time would go towards increasing employment."

and later:

"Reduced working time will thus play a key role in distributing the benefits of new technology".

III. The Economic Analysis of Reduced Working Time

I should like to distinguish three cases embodying different assumptions about what would happen if working time were reduced along the lines suggested by the TUC.

In the first case, there is voluntary negotiation of working time arrangements. Presumably, both employers and employees seek to exploit any gains from such an arrangement. Effectively, the employees seek a higher rate of pay per hour to compensate for fewer hours work and employers will accede to their demands, presumably, if there is a sufficient compensating increase in productivity per man hour. This kind of bargaining is a common, if short-run, phenomenon in the labour market. However, such a voluntary arrangement, while it may benefit existing employees, will not necessarily create more jobs. In the long run, the increase in the price of labour may also represent an increase in its price relative to the price of capital inputs, and employers may, subject to substitution possibilities, replace labour, at the margin, with capital.

In the second case, there is an officially introduced shorter working week and overtime is not permitted or is restricted. The implication is that the existing employed work shorter hours and are replaced by unemployed to 'make up the difference'. This assumes that there is a

'lump of labour' which employers will hire which is independent of any change in costs as a result of the 'work sharing' arrangement. But there is a presumption that unit labour costs will rise. There is also a presumption that the unemployed are less skilled than those in employment and more persons on the payroll normally means more per capita social security charges. Both these raise prices of products, cut demand and therefore output and employment. There is another important characteristic of this model. Work-sharing here implies income sharing. While the total real wage bill may not fall, the increase in the numbers of employed means a redistribution of income between the employed and formerly unemployed. In the UK at least, manual employees (male) work by far the most overtime, but they are generally among the lower-paid. Thus the relatively poor workers would be the hardest hit by an income-sharing arrangement introduced in the name of increasing employment.

In the third and final case I consider, we approach more closely the ideal sought by the TUC - there is an officially introduced shorter working week but employees are induced to accept it by the prospect of no reduction in take-home pay. All we have done here is to add another factor which would reduce the demand for labour on top of those mentioned

in the second case, for unit labour costs would automatically rise.

In such circumstances employers would be bound to press <sup>for</sup> ~~of~~ productivity improvements as the price of raising hourly wage rates, but the more they were successful, the less would be the 'employment effect' of shorter hours, as the TUC realises.

#### IV. Empirical Findings

There is no government policy in the UK which makes it mandatory on companies to promote reductions in working time. Official policy has been concentrated on support for 'work-sharing' arrangements but these arrangements are not approved of by the TUC. On the other hand, a considerable number of industrial establishments have negotiated with trade unions national agreements, that is to say agreements which apply throughout the industry concerned, on a shorter working week. Examples of such industries are engineering, pharmaceuticals, printing and construction. These agreements, many of them now in operation for nearly three years, have been subject to close examination as to their employment, productivity and other effects.

It is only possible in this context to give a bald summary of the findings of the empirical work, most of which has been carried out in the

Policy Studies Institute, London, at the request of the UK Department of Employment. The main findings were:

- (i) There is no evidence that reductions in working time resulted in increased employment.
- (ii) Firms and unions preferred to negotiate productivity agreements as an offset to reduced working time, and to allow some increase in overtime for existing employees.
- (iii) These results were also compatible with the finding that managements considered that there had been no 'trade-off' of shorter working hours for a moderation in demands for wage increases. There was no evidence, therefore, of income sharing as a means of creating additional employment opportunities.
- (iv) On balance shorter working hours were associated with higher labour costs per unit of output and something like a quarter of the companies covered were concerned about the effect of rising labour costs on their competitiveness and therefore their ability to avoid laying off employees.

#### V. Conclusions

It is logically correct that so long as an x per cent reduction in working hours leads to a less than x per cent reduction in output, then there is scope for some increase in employment, assuming that

hourly rates of pay are constant. However, even with hourly rates of pay constant, there must be some rise in unit labour costs, and this probably means that 'second round effects' will produce rises in prices, thus lowering demand for exports and increasing demand for import-competing goods. Thus under the most favourable conditions, a reduction in working hours, by itself, will have at best a limited effect on employment.

All the evidence in the UK suggests that unions negotiating for shorter hours do not expect the 'trade-off' with employers to take the form of a fall in take-home pay, that is to say they expect their real income to increase through a rise in hourly rates of pay. The trade-off is more likely to take the form of concessions on improved productivity. Unless the employed are willing to sacrifice real income, and in practice this has simply not occurred in the UK, then there is little prospect of a 35 hour working week having more than a marginal effect on the reduction of unemployment.

D

cc ~~EE~~  
D.I.

ARTICLE ON THE FUTURE OF WORK - DOUGLAS HAGUE

I have already found my book of the year - Social Innovation and the Division of Labour by Jonathan Gershuny, of the Science Policy Research Unit at Sussex University. It puts important developments in the structure of activity in Britain into a new perspective and has certainly advanced my own thinking.

We can divide types of occupation in a developed economy like ours into two kinds. The most important is formal employment where we join an employer for a salary or wage. This is "work", and we rightly worry over the unemployed because they are without "work".

There are also informal occupations - many of them unpaid. There is community service - "voluntary work". There is the underground or "black" economy - where those who operate in it keep out of the formal economy, frequently to avoid tax.

But much the biggest part of the informal economy is made up of households and Gershuny's contribution to reinterpret their role.

One oddity of economists is the way they regard relative prices. In their early stages, most economics courses and text books give considerable prominence to the role of relative prices. Students endlessly write essays on topics like the effect which a rise in the price of beef - relative to that of lamb - will have on the demand for lamb. In the rest of an economist's training and once that training is over, relative prices are largely forgotten. The big increases in the price of energy in the 1970's led to a flutter of interest in relative prices, with inflation now lower, that interest has largely evaporated.

Gershuny points to one example of the importance of relative prices, by noting their role in determining the amount of informal activity undertaken by the household.

There is a general consensus among economists that, over time, services are likely to become more expensive relative to goods. This is mainly because, at least until recently, it was more difficult to mechanise services than goods. Gershuny argues that the consequence has been a shift away from the purchase of final services by those in employment to the purchase of consumer durables - effectively capital equipment - by the household. We buy lawnmowers instead of employing gardeners; vacuum cleaners and washing machines instead of employing domestic servants; cars instead of travelling by train or bus.

This has had two results. The demand for consumer durables has been a major cause of rising output and employment in manufacturing over the last twenty years. Simultaneously, employment and/or pay in service industries have been less than they might have been.

There is also a more complicated point. Economists put great emphasis on what they call "opportunity cost". It is sometimes not possible to give a direct measure of a cost. The cost of a missing spare part may not be what the supplier charges to replace it: it may be the value of the output foregone before the spare can be replaced.

.....continued

Similarly, it may seem that the cost to the householder of using consumer durables is zero. Members of the family are not normally paid for what they do, or only a pittance. That must be why we choose to use our own "free" labour rather than labour employed in service industries.

An economist would bring in opportunity costs. The cost of a day spent working in the house is not zero - but the income that could have been earned from spending a day at work. Tax also has to be taken into account. Rather than pay £30 to a handyman, I may stay at home to do the job myself and forego £30 of income. To me, however, that £30 is gross. After tax, the net cost will be not £30, say, but £20.

There are therefore two factors at work, not one. A rise in the cost of services provided by those in formal employment will increase the amount of work done at home. But so will an increase in tax rates: it will move some work carried out by those in formal employment in service industries back into the household. It may also move some work into the "black" economy.

I remember vividly how the family of that doyen of financial journalists Harold Wincott disparaged his prowess as a handyman. "Send for a proper man", they used to say. The problem is that a proportion of those who do send for a "proper man" then find him expensive. So they collude and make a payment in cash - in order to keep the "proper man's" price down.

Gershuny's analysis therefore throws light on four important economic phenomena. It explains: the strength of the demand for consumer durables since the war; the apparent slowness in the growth of the service sector; the downward pressure on wages in that sector; and the development of the informal economy - both legitimate and "black".

Perhaps this, as much as any characteristic of labour markets or labour forces, explains the growth of part-time employment in recent years. A full-time employee can rarely adjust the hours he works or the money he earns in the way I have described. Provided more than one person works, the household can. It can adjust work and pay by manipulating part-time employment.

Gershuny's argument is striking and helpful. It emphasises the complexity of the contemporary economy as well as the forces that have led to the growth of informal employment.

It also points up one of my own concerns - the impact of productivity growth in the public sector which is slower than in the private sector.

Gershuny's argument is that if lagging productivity in a private sector service makes it expensive, households take over at least some of its production. In the public sector, however, the way that we organise the provision of services makes that response impossible.

Low productivity in the public sector, unless accompanied by low pay, increases costs and keeps up tax rates. But, having paid our taxes, we obtain most public sector services "free". There is no pressure on the household to provide the service for itself. In the public sector, the pressure to keep down the cost of providing services is shifted from the household to the government. There is no fall in the demand by individuals



for public sector services as their cost increases. Having spent several years now worrying over the problem of public expenditure I am grateful to Dr Gershuny for showing me one reason why I am right to be anxious.

He also compels me to raise what many people will regard as a quite shocking policy suggestion. Public debate rumbles on over the need for private as well as public provision of, for example, health care and education. But when we say private, we mean private activity by those in formal employment.

In health care, however, it will not be long before a home computer can perform the initial diagnosis on a patient. It could then direct him either to an appropriate medical or para-medical specialist. Or it could tell him which drugs to buy from the chemist, thus replacing part of the work of the General Practitioner. Gershuny suggests that "perhaps half of those who currently visit the GP would not need then to do so". There would be a corresponding reduction in public expenditure.

Similarly, it will not be long before the development of television, videos and computers reaches a point where all university students - not simply those of the Open University - could work largely from home. Should not all universities be working to become at least as open as the Open University, with a corresponding saving in public expenditure. This will be particularly difficult for universities. It is hard for those who have spent a lifetime perfecting their lecturing technique, to recognise that formal lecturing may become as obsolete under the impact of television and computers as the Amateur Dramatic Society did with competition from the cinema and television.

These impacts of the information revolution no longer lie in the distant future. They are almost here. Given the time which it takes British public debate to reach sensible conclusions on such radical propositions, debate should start now.

DH

16 March 1984

✓  
6 April 1984

The Prime Minister was most grateful to you, first for coming to Chequers for the discussion last Sunday, and secondly for the material you sent on the working week. She will no doubt have opportunities to deploy these arguments and the empirical evidence, if not on Panorama, then certainly elsewhere.

ANDREW TURNBULL

Professor Alan Peacock, DSC  
✓

De VC

PRIME MINISTER

Employment/Unemployment

Following your meeting at Chequers a number of pieces have been sent in.

I Enterprise Allowance - Annex A

Tom King has now written to the Treasury, seeking agreement to an extension of the Enterprise Allowance scheme in order to allow it to meet demand. This will not be resolved before Monday.

II Position of Young People in the Labour Market - Annex B

The Manpower Services Commission have sent in notes which show the following:

- (a) jobs for 16 year olds, inside and outside the YTS, have increased by about 50,000 over the corresponding level a year earlier;
- (b) unemployment among school leavers under 18 has fallen by 17,000 over the past year;
- (c) total unemployment among under 18s has also fallen by 17,000.
- (d) earnings of employees under 21 have fallen by up to 5 percentage points as a percentage of full-time adult earnings.

III Paper from Professor Peacock - Annex C

Alan Peacock has sent in a note setting out the arguments and the evidence on why a shorter working week is no solution to the problem of unemployment. Even if you are unable to deploy this on Panorama, there will no doubt be other opportunities.

/ IV

IV Papers from Sir Douglas Hague - Annex D

Sir Douglas has sent a copy of his Mond lecture given in March this year. You might like to look at two sections, pages 3-7 in which he discusses the future of work; and pages 15-17 in which he discusses the ABRC. The latter section will be relevant to the discussion you are having in early May with Sir Keith Joseph and Sir David Phillips on priorities in the science budget. As you will see, Sir Douglas is not impressed with the present arrangements. In his view, the ABRC is not clear on whether its role is to promote science or to be an arbiter on the allocation of scarce resources in the science budget.

On the future of work, Sir Douglas has drawn on the work of Dr. Gershuny. They argue the need to break away from the stereotype of work which is:

- a male manual worker
- goes to work in a large factory
- makes something tangible
- works a 40 hour week plus some overtime
- belongs to a union and possibly a closed shop

Sir Douglas argues that all these facets are becoming less and less true.

- there is an increasing proportion of women in the labour force, from 31% in 1961 to 40% in 1981. The proportion of manual workers has fallen from 62% to 50%.
- The trend towards working in large units is being reversed and will be accelerated as information technology permits greater de-centralisation.
- Employment in the manufacturing sector has declined from 38% in 1961 to 27% in 1983.
- There is an increasing proportion of part-time working particularly among women but also among men.
- Trade union membership is in decline. The trend of

the 1960s and 1970s towards increased trade union membership and increased coverage of closed shops has now been reversed.

Sir Douglas draws attention to the tendency or necessity to work in the official economy is in decline. The official economy is in competition not just with the black economy but with the domestic economy. The growth of consumer durables such as washing machines and vacuum cleaners means people can undertake more tasks themselves; the car provides personal mobility and less reliance on public transport; televisions and video provide more home entertainment; the computer and telephone will increase opportunities for working at home, receiving education at home and shopping from home.

You could deploy these ideas on Panorama by arguing that we must break away from old stereotypes of the labour market. Unemployment is not cyclical. It is not due to a fall in demand and new jobs will come not from boosting demand to allow people to return to their old jobs. There is a process of massive transition. We must look forward to new styles of working rather than turning back the clock. While this process is generating high unemployment now it is opening up huge opportunities for the future.

AT

6 April 1984

SUBJECT

Manpower: Seminar  
cc Master

FILE  
CONFIDENTIAL

cc: J. REDWOOD

RECORD OF A MEETING HELD ON 1 APRIL, 1984 AT 5 p.m. AT CHEQUERS  
TO DISCUSS UNEMPLOYMENT

Present were:

- |                    |                   |
|--------------------|-------------------|
| Prime Minister     | Mr. David Young   |
| S/S for Employment | Professor Walters |
| Mr. Quinlan        | Professor Peacock |
| Mr. Redwood        | Professor Hague   |
| Mr. Turnbull       | Professor Minford |

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There was agreement that the origin of high unemployment lay in the defective working of the labour market. No-one attributed it to a lack of demand and no-one advocated use of fiscal or monetary policy - indeed, these were not even mentioned. The Prime Minister drew attention to the contrast with the US economy where unemployment was now falling and where there had been a large increase in the number of jobs; and to Japan where unemployment had never been allowed to rise. She did not think the Japanese example was relevant but it was clear that high unemployment was particularly a West European phenomenon. None of those present expected unemployment to fall significantly - indeed, it was more likely to rise, despite continuing growth in the UK economy. Unemployment would be slow to respond, partly because of the demographic forces which were increasing the labour force, partly because of continuing high growth of productivity in large enterprises and partly because a proportion of the new jobs would be met from those not previously regarded as being in the labour force.

Professor Walters gave his views on the prospects for the US economy. He believed the expansion could be dated from the relaxation of monetary policy in mid-1982 rather than the fiscal deficit which, on its own, was deflationary through its

/impact

CONFIDENTIAL

impact on interest rates. Output was currently growing rapidly but could be expected to slow down later this year and next. He expected inflation to begin rising again towards the end of 1984. He drew a contrast between the UK where real wages had been rising, and the US where they had increased very little. There was also a much bigger contrast in the US between the rewards of being in and out of work. Unemployment pay did not last as long as here and the provisions of welfare when unemployment pay had been exhausted were much tougher. He thought part of the rise in real wages in the UK had been unintended, as wage claims had been based on expectations of a larger increase in inflation than had in fact resulted. This demonstrated the need to emphasise the Government's determination to bring inflation down further.

Professor Hague argued that high unemployment reflected major structural change. In the longer term, he was optimistic as the world was entering a new long term upswing based on information technology, robotics, lasers, etc. The process of transition would see substantial unemployment as jobs were lost in the labour industries. It was vital to prevent constraints being imposed upon the development and exploitation of the new technologies. Mr. Young was concerned at the growth of long term unemployment - 1.1 million unemployed over one year, 0.6 million over two years and 0.3 million over three years. People could become institutionalised on benefit. In his view, the important distinction was not between manufacturing and services but between large and small companies. He had met very few large companies who were preparing to increase employment but many who were prepared to sponsor small companies as sub-contractors. He recommended that the Community/<sup>Programme</sup> be expanded to provide relief for the long term unemployed. He noted that there was a waiting list for admission to the Enterprise Allowance Scheme of up to six months in the South. He hoped it would be possible to find resources to allow this Scheme to meet demand.

/Professor Peacock

Professor Peacock identified a number of factors obstructing the working of the labour market: employment regulations, the Employment Protection Act, pension costs, lack of transferability of pensions, and Inland Revenue's lack of sympathy for small businesses. We had to be prepared for a more flexible pattern of careers with periods of self-employment alternating with periods of employment. The present pension arrangements were a major obstacle to this.

Professor Minford felt the discussion revealed that the Government was not prepared to tackle the fundamental causes of unemployment. He lay particular emphasis on the interaction of the benefit system and the black economy which held up real wages and caused wholesale withdrawal from the official economy. He put forward a list of action points:

- (i) A crack-down on benefit fraud coupled with an amnesty. (Earlier in the discussion he had advocated a modified form of the wage arrangements.)
- (ii) Abolition of wages councils. The Prime Minister explained the difficulties which had arisen in seeking changes to the Agricultural Wages Boards. She noted that it might be possible to change the way the Boards operated to reduce their influence on youth wages.
- (iii) Further measures to reduce union power. This led to a discussion of the merits of postal versus workplace ballots in the present bill, with the Prime Minister arguing that workplace ballots, as currently provided for, would be open to ballot rigging. Mr. King pointed to the risk that postal ballots would suffer from a very low response.

/((iv) Recourse



- (iv) Recourse by public sector employers to the provisions of the Employment Acts to counter picketing and secondary action. The Prime Minister pointed out that, in handling the coal dispute, skilful tactics would be needed and a head-on challenge through the courts might be counter-productive.
- (v) Further cuts in public expenditure to increase the scope for tax cuts. Professor Minford argued that the Green Paper objective of a constant real level of public expenditure was insufficiently ambitious.
- (vi) A reduction in the constraints imposed by the Employment Protection Act. It was noted that there was a choice between further erosion of its scope and a major dismantling of the protection provided.
- (vii) Wholesale revamping of the social security system. Professor Minford argued that social security should become the responsibility of the Treasury as this would allow it to be fully integrated with the tax system. The aim should be a major shift between the benefits provided to those in work and the benefits available to those out of work. Child benefit and FIS should be increased and unemployment and social security benefit reduced. He was critical of the way housing benefit had been cut as by concentrating the cuts on benefit paid to the better off the return to being in work had been further reduced.

/The Prime Minister

The Prime Minister said the measures in the list were familiar and would find a great deal of support as ultimate objectives. What was missing was any sense of realism about what could be put into effect. She doubted whether putting social security benefits alongside taxation under the Treasury would help; it was a mistake to think that the two were considered separately. Major integration schemes could only be made acceptable if there was compensation for the losers. The study of the tax benefit scheme in the 1970s indicated that the cost could run into billions of pounds.

Summing up, the Prime Minister said she would be appearing shortly on "Panorama" and would welcome any briefing material which the group could provide. The following items were identified:

- (i) Figures on the extent to which school leavers had succeeded in getting jobs.
- (ii) Changes in the relative wages of young people.
- (iii) Research work on the response of employment to change in the level of real wages.
- (vi) Professor Hague's ideas on the direction of technological change and on the development of the domestic versus the official economy.

The Secretary of State for Employment and Mr. Young should explore with the Chancellor, as quickly as possible, the problems being encountered with the Enterprise Allowance. They should also consider the case for expanding the community programme and for the introduction of Workfair for young people.

/Professor Hague

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Professor Hague was asked to consider whether the ESRC should sponsor a major research project into the nature of the black economy.

AT

2 April, 1984

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PART \_\_\_\_\_ 1 \_\_\_\_\_ ends:-

Policy Unit to PM 30.3.84

PART \_\_\_\_\_ 2 \_\_\_\_\_ begins:-

AT Meeting record ~~#~~ 2.4.82

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