

CONFIDENTIAL

Prime Minister (4)

cc Mr. Vereker

Mr. Smith

MS 6/5

PRIME MINISTER

MS

2995

CPRS INTERIM REPORT ON UNEMPLOYMENT - CHANCELLOR'S VIEWS

1. The Chancellor apparently does not endorse the interim report. He makes a number of suggestions:
 - a. that we should concentrate on micro-economics rather than macro-policies;
 - b. that the report should be more concerned with practical measures on many fronts which can be implemented in policy; and
 - c. that the main thrust should be to make markets work more efficiently.

2. Although the Chancellor's approach is more eclectic than incisive, I believe that the approach he recommends is basically right. My main reservation is that we should not be drawn into a detailed analysis of measures which we would certainly never wish to implement. The Chancellor, for example, suggests that CPRS investigate Layard's wage inflation tax. This had been suggested by CPRS before in their paper on pay last autumn. E rejected it. Further work and reflection on Layard's proposals have exposed fatal flaws in the proposal. From my sources I believe that the Alliance would not adopt the Layard proposal although this may change.

3. I conclude, therefore, that with the exception just discussed, the Chancellor's proposals are a useful "tour de scene" which CPRS can bear in mind. And the Chancellor's emphasis on micro-policy and market improvements, rather than monetary and fiscal policy, is entirely right.

No

AW

6 May 1982

ALAN WALTERS

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