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Pam...
The Prime's call
for, on his estimate,
£1 billion of inflation
in the budget

9 February 1981

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THE 1981 BUDGET

I have just seen Keith Joseph's letter of 30 January to you. I was on the point of writing to you myself and I am glad to add my voice to Keith's, because I entirely share his convictions that we must now actively help industry to recover and create new jobs. I am convinced of that both for his reasons and because unemployment is developing into a problem of vital social and political importance to which we must show that we are responding.

I wonder whether colleagues have a clear picture of the scale of unemployment that promises to confront us over the next few years. It is increasingly clear that unemployment may reach 3 million or even more by the end of this year. The seasonally adjusted figure may run short of it, but there is a real danger that the total numbers will exceed that figure, perhaps quite substantially if we have setbacks, as could occur, for example, on exports. That is an overall rate of 1 in 8. The rates would be higher still for men, for young people and for racial minorities. In particular localities the position would be comparable with the 1930's or worse. The numbers remaining unemployed for 12 months or more could stand in 1982 at 6-700,000 - more even than in the 1930s.

There are reasons for thinking that unemployment on this scale will not substantially decline of its own accord, certainly not before the next Election. Even when the recovery in output comes the effect on unemployment will be delayed and probably subdued. Industry will not take back the same numbers having achieved de-manning, the numbers entering the labour force are growing and the labour effects of new technology will increasingly appear.

Sustained unemployment at these levels is quite likely to produce social problems on a scale we have not had to deal with in 40 years, particularly amongst the growing numbers of long term unemployed,



and racial problems we have not seriously had to deal with before. It is also of immense political significance. There are many signs that the issue has moved to the forefront of political debate. Public opinion polls show that, in a major shift of attitude, it has overtaken inflation as the main worry and the Press and other media coverage is responding. By so vocally and visibly condemning Labour's performance on this front, we have asked to be judged on it ourselves - and the judgement on the present outlook is unlikely to be favourable.

In drawing attention to this I am not challenging - any more than Keith - our basic economic strategy. I believe it is broadly right and, if held to, promises this nation a better prospect than it has had for a long time. I am absolutely convinced, however, that we have got to weave into it a coherent and positive strategy on unemployment - not leave this to seem to be the residual of other factors - and that we must use every possible room for manoeuvre both to promote industrial recovery and to combat unemployment.

In devising a convincing strategy it seems to me that we need to develop several strands:

- (i) to assist industry to recover by lowering its costs and particularly by stimulating new and expanding businesses. I think there is a great deal in the ideas Keith has put forward and that their thrust is right in this respect. I also support his order of priority among them. We need something that is quick acting and, despite the arguments that can be brought against it, I agree with him that action on the NIS surcharge now has a very great deal to commend it, as indeed has some early action on energy prices. In particular I wish to support the loan guarantee scheme and tax relief on equity investment start ups. These measures can be represented as a Conservative approach to job creation, and have therefore a political as well as economic advantage.
- (ii) to support industry expenditures on the supply side. Keith has rightly mentioned assisting R & D and I think we need to keep this objective in mind when we come to consider new proposals on training.
- (iii) to promote some major capital works which could sensibly be undertaken to improve the industrial infra-structures and prepare for the upturn. We should have particular regard for areas of high unemployment like the West Midlands. Here again I agree with Keith that we should look at the nationalised industry investment programmes, but there may be other substantial capital schemes eg by local authorities, which would fall in this category and help output and employment in the engineering and construction industries. To overcome the public financing problem we really do need to find ways of getting private finance for schemes of this sort, through leasing for example.
- (iv) to do more directly to help those hardest hit by unemployment. On this we shall soon have proposals from the CPRS study, but I think we should do more to extend the possibilities of early retirement. I really do wonder whether we should not begin to consider encouraging a more flexible



approach to retirement at an earlier age and start a programme for moving by stages towards it. But more immediately I think there is now a very strong case for extending JRS down to age 60 for men (an estimated extra cost of about £120m in the first year).

(v) to recognise the plight of the long term unemployed. This is an area where we are politically extremely vulnerable. We have gained considerable credit for what we have done for the young unemployed but there is growing concern at the plight of older people and the real hardship faced by those unable to find work for very long periods. We cannot readily expand our temporary work programmes for them this year, but I think there are two things we should do for them. One is to enable those aged 60 and over who have been unemployed more than 12 months to retire if they want to, under the JRS, extended as I propose. The numbers would be small and the cost not more than a few million, but it would be worth doing. Secondly, I think the time may come to make those unemployed more than 12 months eligible for the long term social security benefit rate. At present the long term unemployed qualify only for the ordinary SB rate, which means £34.60 a week for a married couple, as against the £43.45 which is paid to other long term recipients of SB. I am told that the cost might be around £100 million a year at the current level of long term unemployment, but Patrick Jenkin will best be able to say. It would be something even to extend it to those unemployed for more than two years.

How far we can go at this time in terms of resource is a difficult judgement, but on the information available to me I would have thought that the PSBR could be allowed to rise by, say, £1 billion above what it would otherwise be on present plans without departing from our financial strategy - though I recognise that this would mean a lower fall in interest rates than would otherwise be the case. If at the same time we made the switch of resource from the personal to the corporate sector that Keith is proposing by providing for something considerably less than a full indexation of personal tax allowances, this would allow a higher level of expenditure to provide us with a more positive strategy on industry and employment.

I hope that you will seriously consider these ideas along with Keith's in formulating the Budget and I look forward to discussing this with you at the meeting we are to have next week.

I am sending copies of this letter to the other recipients of Keith's letter.

Yours

