

Primi Minist Margaret

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The Chancellor had a good meeting with Mr Pina on youth unemployment, which I attended. The Chancellor is

NOTE OF A MEETING HELD AT NO. 11, DOWNING STREET AT 6 PM *being v.*
ON TUESDAY 2 JUNE 1981

Present:

- Chancellor of the Exchequer
- Secretary of State for Employment
- Mr. Ibbs (CPRS)
- Miss MacKay (CPRS)
- Mr. Lankester (No.10)
- Mr. Hoskyns (No.10)
- Mr. Walters (No.10)
- Mr. Dixon
- Mr. Gieve
- Mr. Derx (Dept. of Employment)

constructive, and Mr Pina has promised a paper to E in July: it will take a few weeks to cost and test the feasibility of the ideas for a universal, voluntary programme.

The meeting considered how the Government's policies on youth training and employment might be improved and what further work should be commissioned. The background to the discussion was set out in the paper by the Treasury which was attached to Mr. Jenkin's letter of 18 May to Mr. Ibbs.

I believe this is a most important issue

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2. The Secretary of State for Employment said that the Government's aim must be to ensure that all 16 year-olds had a place, whether at school, in training or through the YOP. He hoped that position could be reached quickly. There were dangers in believing that this could be achieved without increased Government resources. The YOP was under considerable pressure already. At the same time the allowance - £23.50, or £19.50 after allowing for travelling - was only one-fifth of the average wage and had not been increased for two years. It would be politically very difficult to reduce. He did not believe expanding school places to be a solution: school was expensive and the Government should only encourage those who would benefit from staying on at school. It was essential to try to persuade young people not to price themselves out of jobs. He saw, however, substantial political and other difficulties in trying to take young people out of the purview of



wages councils.

3. The Chancellor said he recognised that the ideas which had been put forward carried certain difficulties. For this reason, he was advocating a package approach. There were a number of aspects to the present arrangements which were disturbing and which, in his view, needed changing. Firstly, the entitlement of young people in their own right to supplementary benefit (SB). Secondly, the need to widen wage differentials between the young and others: in addition to persuasion, the Government should look critically at wages councils. Finally, he was concerned at the substantial number of MSC staff who spent their time on the non-productive work of ensuring that YOP places involved neither work nor training. He was looking for a scheme to be developed alongside or unified with existing schemes which, on a voluntary basis, would make sufficient places available for all those wanting them. Under the scheme young people would be placed with employers for both work and training. He hoped that employers could be persuaded to contribute to the remuneration of the trainee - this would certainly help limit the cost to Government. Such a unified work programme (UWP) would release MSC staff from "policing" work. Allied to the scheme would be the withdrawal of a young person's entitlement to SB in his own right.

4. The Secretary of State for Employment said that he was not opposed in principle to these ideas, though he thought that they could well be subject to a number of practical difficulties. Firstly, the Government might come under pressure to contribute to the cost of remunerating intra-marginal, as well as marginal, trainees: this would be very costly in public expenditure terms. Secondly, it would be essential to retain the tacit support of the trade unions if the YOP were to be developed in this way. Whilst increased financial resources from Government should help to retain support, proposals to reduce the level of the YOP, or successor, allowance could well be counter-productive. He was however quite prepared for the Manpower Group to consider



these ideas in the present work which they were doing.

5. Mr. Ibbs said that the lesson from West Germany seemed to be that the key was making available sufficient places for young people. Having achieved this the need for, and significance of, SB seemed to decline. The critical question was how and at what speed the Government could move from the present position to a "West German" position. The attitudes of the trade unions would be crucial. They tended to be opposed to UWP because it had the effect of moving unemployment through the age range. One way of winning them over might be to concentrate in any UWP on the provision of new skills, which were poor in the UK anyway. It was agreed that the attitudes of the trade unions would be crucial. The Chancellor said it would be necessary to win the support of the General Secretary of the TUC for any proposals.

6. It was agreed that a universal scheme could well lead to new attitudes and make possible changes which would not otherwise be possible. A UWP was bound to involve some displacement of the old by the young and thus to give rise to some resentment. More emphasis on training should however tend to reduce fears about substitution and, incidentally, allow more modest remuneration, thus helping to contain the costs of the scheme. It would be important, however, to avoid giving any impression that the living standards of the young were being reduced. The relationship between such a programme and the new training initiative would need to be considered carefully. It was agreed that the next step needed to be to establish the likely timescale and cost, on varying definitions, of a universal scheme, linked to withdrawing the independent entitlement of young people to SB. Mr. Derx said that the Manpower Group would be reporting to the Secretary of State by the end of June or beginning of July and would cover the ideas canvassed. The Secretary of State said that he would bring forward a paper to colleagues in early July. Mr. Lankester confirmed that the Prime Minister, who, he explained, attached the greatest political importance to improving the Government's policies on youth employment and training, would find this



timetable acceptable.

7. The Chancellor wondered whether there might not be advantage in launching a pilot scheme in, for example, a town like Northampton. The idea would be to make more effective use of money already being spent in the locality by engendering community action and making localised changes to the SB rules. He recognised that selective change to the SB rules would be politically and administratively difficult but thought that it was not inconceivable. A pilot scheme would have the merit of enabling teething troubles to be ironed out and winning over critics to the idea. Mr. Derx questioned whether, if Ministers wanted to launch a nation-wide scheme by, for example, the autumn of 1982 there would be time for a pilot scheme. The Chancellor asked that the Manpower Group consider further the case for a pilot scheme.

8. So far as the financial resources devoted to the YOP and similar or successor programmes were concerned, Mr. Ibbs said that it was likely that the options which the Manpower Group would identify would, at first, seem too expensive in public expenditure terms. It was, on the other hand, important to consider the public expenditure implications of the likely alternatives to putting forward proposals of the sort outlined by the Chancellor, though with additional Government financial support. They were probably either a larger YOP or much higher youth unemployment, both of which would be costly in public expenditure terms. Against these alternatives, the likely Manpower Group options could well turn out to be more economical. The Chancellor recognised that there would almost certainly be very substantial pressure for additional resources to be devoted to the existing employment programmes and that, against that background, he would probably be prepared to concentrate mostly on seeing how most effective use could be



made of additional financial resources.

9. A further question was how the Government could ensure that firms made available sufficient places. The Secretary of State for Employment said that the West Germans had not needed to invoke the local power to oblige firms to provide additional places - though the power had been declared ultra vires - because the supply exceeded the demand. The West German system was a good deal more flexible: it was not organised on a sectoral basis and its UWP system included much of the work which in the UK was done by training boards. It was generally agreed that local industrial and commercial institutions in the UK like chambers of commerce and trades councils were weak and did not in their present form give much ground for thinking that they could play much more of a role.

10. Mr. Ibbs expressed concern that more attractive training schemes would tend to increase school leavers. He wondered whether in these circumstances some allowance for those remaining at school would not be appropriate. It was pointed out, on the other hand, that if the allowance payable on a UWP place was lower than the present YOP allowance this should encourage young people to stay at school. In addition, there was no evidence that the change in the supplementary benefit rules at Easter, which had tended to improve the position of young people, had increased the number of school leavers.

11. The Chancellor, concluding the meeting, said he thought the best way forward lay in a package approach under which a universal provision of places would be established, on a voluntary basis, in return for which young people's entitlement in their own right to SB would be withdrawn. He hoped that some of the cost of additional places could be moved away from Government onto employers. He looked forward to considering with colleagues in July the Employment Secretary's papers assessing, on the basis of the Manpower Group's work, the costs,



practicalities and timing of proposals along these lines.

R.I.

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5 June 1981

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