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PRIME MINISTER

EMPLOYMENT MEASURES

At E we shall be discussing Jim Prior's proposals for increased spending on employment and training activities. I recognise that political imperatives may make it necessary for us to take some action to respond to the growth of youth unemployment in particular. Nevertheless, even assuming that the expenditure can be offset by savings elsewhere, I believe it would be wholly wrong to make a large increase in spending on programmes chiefly aimed at temporarily reducing the numbers registered as unemployed. Assuming that the money for extra or alternative spending is to be made available, I would argue in favour of spending in productive rather than unproductive ways.

2 While I would certainly welcome a move in the direction of a training regime for young people closer to that in Germany, it seems clear that an important element in our present youth unemployment is that, while real unit labour costs are too high to clear the labour market, real unit labour costs for young employees have become too high in relation to those of adult workers. We should move in the direction of increasing the differential between youth and adult earnings rather than providing a state subsidy towards the cost of temporarily employing young people. Subsidies of this kind can only be provided at the expense of higher taxes and hence job losses elsewhere in the economy.

3 I do not want at this stage to propose specific alternative expenditure programmes. However, I and other colleagues are cutting back or could readily expand a number of programmes which could generate a net increase in employment as well as providing a useful stock of productive assets. In Michael Heseltine's field I would see industrial advantage in a stimulus to private housebuilding, particularly for rental, perhaps by the same effective means as the Chancellor used last year to stimulate workshop building. Apart from being quick-acting, labour

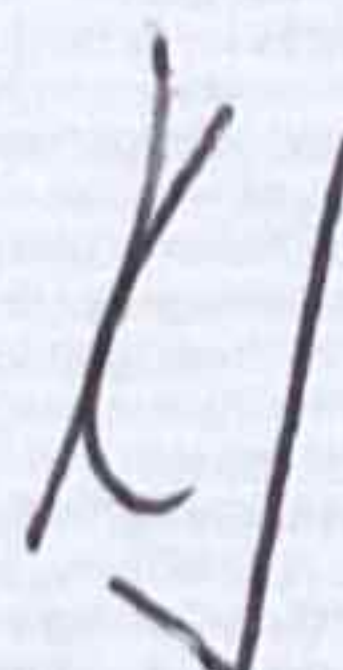
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intensive and a boost to manufacturing industry, such a stimulus could contribute to labour mobility. If it could contribute to inner city regeneration as well that would be a further gain. In my own field I would think particularly of an increased stimulus to enlightened public purchasing, the investment programme of British Telecommunications and launch aid for new aircraft and engines.

4 To over-simplify I think it more important to provide funds for these sorts of activity which will help to secure the availability of real jobs in future years and an efficient infrastructure than to cycle young people through MSC programmes only for them to find few jobs available for them and disillusion at the end of it. In order to fit more closely into the political pressure for action in the field of training and youth opportunities I would be very ready to make it a condition of the provision of launch aid or public procurement support that the beneficiaries should maintain apprenticeship programmes at a satisfactory level and otherwise participate in the provision of youth opportunities.

5 I am sending copies of this minute to the other members of E Committee, to Professor Walters and to Sir Robert Armstrong.


K J

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