

c. Mr. Whitmore
Mr. Vereker
Mr. Hoskyns

PRIME MINISTER

UNEMPLOYMENT MEASURES

I attach a draft passage for your speech on the unemployment measures package. I prepared this in consultation with Peter Kemp (Treasury) and Donald Dirks (Employment) following the meeting this morning.

The draft has been seen by Departments, though not in every case by any means by their Ministers. Agreement has more or less been reached on it, subject to any further points Ministers may have over the weekend.

The one outstanding issue of any significance concerns paragraph 17. Mr. Prior, who has had the text read over to him in Cardiff, is insisting that the full additional cost of the measures should be mentioned - i.e. about £700 million in 1982/83. He says that, in view of all the speculation in the press that the Government has been considering a package amounting to £1 billion or more, the figure of £380 million (which excludes the money for fulfilling the existing YOP guarantees and for the youth employment "subsidy") will give the impression that we are only "playing" with the problem. He is not prepared to accept a figure of £430 million, which would include the youth employment "subsidy". The Treasury are equally adamant that, for the sake of market confidence, they don't want the figure of £700 million to be mentioned.

We will need to discuss this point on Sunday, and you may need to resolve it personally with the Chancellor and Mr. Prior. The Department of Employment have submitted a compromise draft which gives support figures for fulfilling the YOP undertakings and for the new measures - this is at Flag A. Mr. Prior is apparently quite happy with this, because there is no difficulty in adding the two figures to £700 million. The Treasury say they are prepared to look at it. (I have put to the Treasury the possibility of showing the total gross costs at £700 million, and the net costs at about £400 million

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after allowing social security and tax offsets; but they are not prepared to accept this because, they argue, it would open the way for all Departments to argue their case for extra expenditure in net terms.)

Other points are:

- i. Mr. Prior does not like paragraphs 9 and 10 on the improved training scheme which would follow YOP. He would like something a good deal more forthcoming. He is prepared to swallow it, but only on condition that no attempt is made by us or by the Treasury to weaken the passage further. The Treasury at official level are content with the present text.
- ii. Paragraph 6 says that young people's wages are too high because of unrealistic wage bargaining over the years. It does not mention wages councils because that would be a red rag to Mr. Prior. I have done some further research on how important the wages council point is. 18½% of 16 and 17-year old employees are covered by wages councils. The minimum wage for practically every wage council for 16-year olds is below £40. The minimum wage for practically every wage council for 17-year olds is below £45. This means that, if the youth employment "subsidy" is applicable to those earning £40 or below, the existence of wages councils will have only a very small impact on the scheme indeed. Employment have suggested that we might consider a £40 ceiling for 16-year olds and a £45 ceiling for 17-year olds, which would remove the wage council problem altogether. This is not to say we should not try to get rid of the wages councils, at least insofar as they apply to youngsters; but it does suggest that it is not worth pressing the point with Mr. Prior over the next 48 hours - knowing as we do from this morning's meeting how strongly he feels about the issue. I should add that the

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draft does not give the details of the scheme, because one or two points still have to be worked out - for example what the earnings ceiling should be (see above), and how the scheme should apply to young people taken on between its announcement and its coming into effect.

- iii. The Scottish and Welsh Offices have put in a bid for part of Mr. Carlisle's £60 million. DES have now agreed that the £60 million will cover Wales, Scotland and England.

- iv. The Voluntary Services Unit of the Home Office would like to have had some of the £4 million allocated to DHSS for voluntary work; but the Home Secretary is not pressing the point. They are prepared to go along with the allocation to DHSS provided DHSS discuss the allocation of the money with them - and this is reflected in the draft (paragraph 15). We may also get a claim from the Scottish Office for some of this voluntary money; I hope DHSS and Scottish Office can sort this out between themselves.

- v. There is a further small point about Mr. Carlisle's £60 million - whether this is additional public expenditure (which would mean that the local authorities would have to raise some of the money themselves under the normal RSG ratio arrangements) or whether it is a £60 million addition to the RSG itself. In either case DES say they can ensure that the extra money is spent on education. My impression was the £60 million was to be an addition to the RSG or a specific grant; we can leave this, I hope, for the Treasury and the DES to sort out on Monday morning.

T.L.