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PRIME MINISTER

EMPLOYMENT MEASURES

Although the package of employment measures which were announced on 27 July has, I think, been well received and should have its effect, there is no doubt that we ought to be thinking about other approaches it might be sensible to consider in the weeks and months ahead. We shall certainly be expected to take further action. I myself would be opposed to doing more of the sort of thing we have just announced; valuable though some of these schemes may be on a small scale, they change their character as they expand so that they can become a threat to our whole economic strategy.

2. Accordingly I asked the Treasury to consider alternative ideas which might help with employment, of a perhaps rather less orthodox nature. I have discussed these ideas with Robin Ibbs and John Hoskyns, who agreed that some of them are worth taking further. I shall be putting this in hand, but I had thought that meanwhile you might like to know what was in my mind.

3. Basically I want to look at three different sorts of areas.

4. The first of these is action to improve the workings of the labour market to ensure a greater mobility of labour and more rapid downward adjustment of real wages. Specific proposals to be looked at are:-

Prime Minister 1/2
The Chancellor's initial ideas for a package of employment - promising measures.

These will be worked up into a paper for discussion after the holidays.

11/8

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- (a) Inclusion in our Bill on industrial relations in the next session measures that attack the main immunities, and hence the economic power, enjoyed by the Unions.
- (b) Measures to ensure that Wage Councils took account of considerations of supply and demand in considering wages. So far as young people are concerned, we might restrain them so that they could not recommend wages for young people more than (say) one-half of those of adults for similar jobs. We need to do something here anyway as a corollary of the Walters scheme.
- (c) Encouragement of a shift towards plant bargaining, through the Government acting where it has the power - e.g. in the NHS and perhaps MOD industrials and the Civil Service generally.
- (d) Making it possible, where both employers and employees agree, to opt out of parts of the more onerous statutory burdens that exist - for instance redundancy pay arrangements and unfair dismissal procedures.
- (d) Press on with reform of apprenticeships and skill training.

Separately we might consider whether the Civil Service Contingencies Unit (CCU) should examine whether longer-term and more fundamental contingency planning - e.g. training the forces to drive trains, merry-go-round or otherwise - could be helpful.

5. The second area I would like to look at concerns measures affecting incentives to work, especially at the

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lower end. I know we have looked at this before. But we should have another look. I would envisage covering:-

- (a) A review of the rule requiring a person on benefit to be available for work and not unreasonably to refuse work, and a tightening up of the enforcement of existing rules. It is interesting to note that in his report of 1942 Beveridge envisaged tighter conditions here than I think now obtain.
- (b) Creation of public works jobs - such as some of our colleagues have suggested - on a selective basis offering pay to a man in excess of benefit rates but lower than would otherwise be the rate for the job, with penalties by way of reduced benefit should he not take the job offered (this is a development of (a) above - and can again be traced to Beveridge foundations).
- (c) Another look at the cash difference between child benefit payable to people in work and supplementary benefit children's rates payable to people out of work, in the hope that this difference might be narrowed or at least not allowed to grow.
- (d) Press again the proposal that young people should not have access to supplementary benefit in their own right - an idea already on the table which so far Jim Prior has proved resistant to.

6. My third group of ideas operates to reduce the cost of labour to employers. Ideas I would like to look at here are:-

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- (a) Reduction of National Insurance Surcharge, so as to make labour cheaper for employers. The crucial objection to this, of course, is cost, but depending on the economic forecasts some of this could be achievable if we exercise proper restraint on public expenditure. This is a matter which will be covered in my paper for Cabinet in the autumn.
- (b) Lifting the lower earnings limit for National Insurance contribution and National Insurance Surcharge. At the moment this stands at £27 per week, that is, up to that level no NIC/NIS is payable, whereas above that the combined rate of over 20 per cent becomes payable on the whole amount. Raising the level would undoubtedly make labour cheaper at the lower end. There would be a cost, but this might be met by raising the upper earnings limit too as necessary.
- (c) Employment subsidy schemes designed as an alternative (or supplement) to the creation of public works jobs set out in 5(b) above, framed to reduce long-term unemployment and linked to tightening enforcement rules (5(a) above). Some elements of such a scheme have been proposed by Professor Layard.

7. There are other ideas which I have considered - e.g. Professor Meade's proposals which link promotion of employment directly with a reformed system of pay determination, and "conditional" policies which link reliefs of one kind or another with achieved reductions in level of pay settlements. For various reasons I do not think that these can help much in the short-term, but I would like to look into Meade's approach before writing it off entirely.



8. Clearly some of the ideas which I do want looked at further would be unattractive in some quarters - whether with Unions, employers or even some of our own colleagues. But others should prove more acceptable. My idea is to seek to design some kind of package which overall would represent an imaginative and cost-effective approach to our problems in the unemployment/pay areas, both long-term and short-term, which as a whole we might have a chance of achieving. Legislation would almost certainly be necessary, and one could imagine a single Bill with a title such as the "Employment Opportunity Promotion Bill".

9. I am asking my officials to work up these ideas - and what I suggest above is not necessarily exhaustive - with a view to preparing a note for discussion with you and some of our colleagues immediately after the holidays. There may of course be some interaction with our consideration of the question of Inner Cities in the light of Michael Heseltine's proposals following Merseyside, of which I have been given a brief outline.

10. I am copying this minute to Robin Ibbs, John Hoskyns and Alan Walters (who was not able to be at the meeting at which these ideas were discussed).

A handwritten signature in dark ink, appearing to be 'G.H.' with a flourish.

(G.H.)

// August 1981