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REPORT

of the

EMPLOYMENT POLICY GROUP

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EMPLOYMENT POLICY GROUP - SUMMARY REPORT

1. If ten intelligent Conservatives are put in a room and told to come out with new solutions to the unemployment problem that involve spending no more taxpayers' money, they will inevitably come forward with two contrasting sets of answers. First, that there are no new solutions other than the basic requirements of lowering wages for the unskilled, raising tax-thresholds, and producing more British goods and services that are marketable in both quality and price. Second, that the solutions have to be drastic since all the obvious, and some of the less obvious ones, have already been tried. These drastic solutions may be electorally unpopular, involve a further degree of Government intervention, and will cost the taxpayer some money, although the net cost may not be that great.

2. Our group was no different. There was a strong strand of belief that the problem of 3 to 4 million unemployed would in the end work itself out, as a result of the special measures already taken by Government, the growth of the black economy, the slow emergence from recession and the development of the new "third industrial revolution" products - both manufactured and service - in the U.K. In this context the group noted the historical fact that at the beginning of the nineteenth century, 60% of the population worked on the land, in order to provide food for a population one-sixth the size of today: now only 2% work on the land. In the early 1930s 700,000 were in domestic service, now only a few thousand.

Large numbers of the population have been displaced from one industry, as that industry disappeared into the past. Perforce they have found work in other industries and other parts of the country. The same will happen again, but it is a very slow process.

3. On the other hand, there was the nagging worry: what if, as a result of robotics, the lateness of response to change in Britain, the lack of mobility of labour, the power of the unions, and a host of other reasons, unemployment remains at and over fifteen percent of the work-force? In 1984-85, will a Conservative Government be able to tolerate more than a million unemployed under the age of 25 at a time when the recession has ended, G.D.P. is growing at 2% + per annum and inflation is at 5% and falling? In short how, when we are re-elected, do we turn today's lower inflation into tomorrow's lower unemployment-rate, if unemployment remains stubbornly and historically high as the O.E.C.D. countries come out of recession? It is absolutely plain that manufacturing industry - and notably the smoke-stack industries - will never again employ either the same number of people or the same proportion of the working population. We shall not be able to relate economic growth to industrial employment. The Government must NOT hesitate to make this clear.

4. It is in that context that proposals and ideas are put forward in the attached Annexes. We do not see anything in our proposals that will necessarily find a place in the Manifesto: we envisage our proposals as being primarily a series of contingency plans for /action

action, if necessary, in 1984 onwards against a background of continuing high and possibly increasing unemployment.

The remainder of this report consists of a summary and, sometimes, a rationalisation of the proposals in the Annexes.

5. The Group was pre-occupied with the need to get the young school-leaver into the habit of work. We all know the ease with which the 17 or 18 year old, six months unemployed, slips into a routine of unemployment that is hard to break, saps the will to find a job, and quickly makes the young person unemployable. The statistics show that the most worrying aspect is the growth in long-term unemployed, particularly among the young.

We concluded that a range of options needed to be fashioned which could supplement and extend the Youth Training Scheme. The Y.T.S. could be developed into a three-pronged two-year scheme. The three alternatives available would be: vocational training for jobs: work in the community: civil or home defence. No tax or national insurance would be paid in this period by the "trainee". Neither of the two years' schemes would be compulsory: all would be geared to the trainees living at home and paid accordingly (£25 a week plus travel allowance). No supplementary or unemployment benefit would be available to those, in either year, who had been offered a place and refused.

These ideas are developed in Annexes A and B. B specifically deals with the question of home and civil defence. We feel this must be examined in depth. We are aware of the broad suspicion attaching to the location of American-owned nuclear missiles in Britain, coupled with a total ignorance as to basic self-preservation or civil defence in the event of a nuclear attack. There must be a strong case for bringing these strands together and offering the trainee an option to learn about civil defence, with regular short refresher-courses thereafter. The figures quoted in Annex B are primarily taken from work done by Enrico Collombatto of the L.S.E. in 1980. They show placements for a minimum of 600,000 young people in Community Programme activities. We have included 100,000 places in the home/civil defence option in this total, added 75,000 administrators and arrived at a net cost of £638 million for 675,000 jobs (i.e. £945 p.a. per job).

We fully expect our figures to be disputed by the experts. The only reason for quoting ball-park figures, though, is to give some idea both of the magnitude of jobs available in a scheme of community service, and of the costs.

There will of course be strong union opposition to this extension of training and community programmes at low wages. We suggest that the T.U.C. are publicly involved from the outset by David Young who appears to have a gift for working with union leaders.

6. Still on the question of inducing the habit of work, we have suggested considering in the 1984 Budget a higher threshold for the
/payment

payment of tax and n.i.c.s. for those under 19 - perhaps £2,000 p.a. in today's money. Payment of tax could become more acceptable as wages moved up after two years' employment. We appreciate the many difficulties and therefore suggest a two-year trial. We accept the need not to lean heavily on the black economy; indeed, if it were not for the black economy, it is certain that the retail market - and VAT revenue - would not be as buoyant as they have been. On the other hand, the 17/18 year old must be encouraged into the habit of paying taxes as much as into the habit of work. Raising the tax threshold, therefore, to exclude all of those in apprenticeship, training or low-paid work for the first two years after school may well be a necessary "breaking-in". Similarly, in Annex F, we suggest a tax-holiday for two years on small businesses started by those leaving full-time education.

7. In Annex A, we inevitably stress the need for better practical education, and better preparation in schools for jobs. We think this is totally fundamental and we would have gone further into the subject but for the existence of Lord Beloff's Group.

8. The problems of those in middle age, either when declared redundant or when wishing to move from one industry or part of the country to another, greatly concerned us; we felt they received less attention than either the school leaver or the near-pensioner and yet they could be in the worst situation of all. What job-prospects are available for the forty-year old married with two children at school, living for example in the West Midlands, heavily mortgaged, skilled only in production-engineering in the car industry, and declared redundant because of the endemic downturn in that industry?

We did not wish to add to the range of powers and services of the M.S.C. We looked therefore - with no great solutions - to the range of voluntary and professional bodies to provide "redundancy counselling" and local advice on setting up new businesses. Our suggestions are in Annex C. We particularly think there is a need for private business schools and for all departments of Business Studies in the State sector to provide short crash courses in basic Business Management.

We felt there was a need for "Low Tech" courses - courses in the 'reversion technologies' such as carpentry and pottery - to be available for those who were declared redundant in middle age and who had or wished to have one or two craft skills. Such courses could be either at Adult Education Centres or at Low Tech Centres privately organised by firms such as Job Creation Limited. NEDO Sector Working Parties should be asked to investigate where there were requirements for particular skills, and to make their findings known.

9. We are very concerned about the lack of mobility in Britain, which accentuates the North-South Divide. To ease this we suggest that occupational pensions must become fully transferable from one job to another (Annex D) and that a simpler and quicker system of house-conveyancing, and the abolition of rent-control (Annex H) would ease the problem. It is essential that the person in middle age who loses his job in a declining industry should not find /himself

himself trapped against his own wish in the town that cannot provide him with a new job.

10. In contrast, we felt that the problems of those nearing retirement were receiving much consideration from the State. We are convinced that job-sharing will grow and we liked the Budget's association of job-release with this. As this has, we understand, little or no net cost to the Exchequer, we suggest that consideration is given in 1984 to extending this.

We do not believe that the Government should legislate for earlier retirement, but it could give increasing encouragement to this end to its own employees. Granted the longer life-expectancy of women, it is sensible that the Government should work, as an employer, towards a common retiring-age for both sexes: say 62.

When the new franchises for Cable Television are let, we suggest that consideration is given to requiring the licensees to carry inter-reactive educational material, suitable for vocational training for young people and for craftskills and hobbies for those sharing their jobs.

11. In Annex E, we look at pension-contributions from another angle. Currently, employed people can put up to 15% of their gross income into pension-schemes tax free. In cases where the company scheme only absorbs 7%-8% of gross income, the employee - particularly those in their fifties who have reasonably high salaries and have shed family responsibilities - invest the balance in Additional Voluntary Contributions, still on a gross basis.

We suggest that individuals should be allowed to divert some of this money - say 5% of their gross income p.a. - away from pension fund contributions into the Business Expansion Scheme. Whilst there are few people left today with much free capital, there are a greater number with relatively large incomes. They should be encouraged and allowed to invest, as a gross deduction from monthly payslips, in the equity of small and start-up businesses. This is preferable to giving a close circle of pension fund managers even larger sums of money to dispose of. There will be no loss of tax-revenue to the Inland Revenue as pension fund contributions are already invested gross.

12. We further suggest that these sums should be investible in partnerships as well as in companies.

The further encouragement of small businesses occupied much of our discussions. We were impressed by the work of Job Creation Limited and the enthusiasm of its Chairman, Paddy Naylor. We liked his emphasis on providing advice and services for the start-up company and we agree with his comment that one of the problems for the start-up is loneliness: it is easier to set up business in the communal atmosphere of an old textile or steel mill, where others with the same ambitions and problems are just over the partition wall, where the lease is short and simple, and where communal financial, typing and canteen services are supplied. In such conditions there
/will

will inevitably be a large element of tax-free barter. This must not be suppressed by the Inland Revenue.

We accept that the recent Budget has gone far to meet objections concerning the Business Start-up Scheme. We still think that Britain has a very long way to go before we reach the necessary point where members of the family as well as outsiders can invest a portion of gross income into "good ideas" developed by a relation.

A number of ideas about unshackling small businesses from Government Departments and the Treasury are contained in Annex F. We appreciate that these will arouse objections, not least from the Inland Revenue and local authorities. Risks, however, have to be taken if Britain is to catch up quickly the ground we have lost in the last thirty years to international competitors with regard to the potential of small businesses for making marketable goods and services and, as a by-product, creating jobs.

13. Our terms of reference asked us to look at the unemployment statistics and at regional policy. These are covered in Annexes G and H. The easiest thing to say about the present statistics is that they give the Government the worst of all possible worlds. They emphasise the headline total of unemployed without giving the public - although the figures may be available to the experts - any idea of where jobs are growing, what skills are needed, the relative growth of part-time jobs etc.

The headline total pushed the Heath Government into unwarranted reflation, has resulted in regional subsidies that have been ineffective in terms of employment and of cost, and has given Oppositions a monthly stick with which to beat Employment Ministers.

We suggest a much wider "disaggregation" of employment and unemployment figures, to be published monthly showing, inter alia, where employment is growing, what proportion of the population are in Y.T.S., Community Programmes or other Special Employment Measures: how many are caught in poverty and unemployment traps. (But for the existence of Terence Higgins' Group, we would have spent a long time on tax thresholds and the poverty/unemployment traps. We recognise that these are of paramount importance to the "habit of work" and to pricing people of all ages into jobs).

We suggest in Annex G that independent consultants be commissioned to produce manpower assessments on individual services and distinct parts of certain industries. Conscious of the impact of new technology on jobs, we believe more information is required by teachers, parents and pupils in secondary schools on what skills are needed in the years ahead. This information must be regularly updated.

14. In Annex H, we recommend a progressive phasing-out of Regional Development Grants. Some part of the resources released (and there could be a net gain in this to the Treasury) should be used on the development of "localised growth-points" - centres of excellence in the heartlands of the regions that will offer everything that London /and

and the South-East can offer, plus cheaper housing and labour, better scenery and fewer people.

We do not believe we can just accept that all development of commerce, services and manufacture be concentrated in London and the South-East. Therefore, a magnetic pull back to Manchester, Leeds and Cardiff must be brought about that will be strong enough to provide counter-attractions. Good communications are essential, and each growth-point must be as self-sufficient as possible in order to attract the headquarters of large companies; good lawyers, accountants and software bureaux; financial and insurance services; and parents who are ambitious for their children. This cannot be done just by large grants to capital-intensive manufacturers. It can only be done by a commitment to develop centres of excellence that can hold their heads up in comparison with London and that will also have regional strengths and initiatives unfulfilled elsewhere.

We believe this development will have to be the work of a Central Government Department, and we look with interest at the work of the Scottish Office in promoting Scotland per se as a growth-point.

15. The final Annex I deals with capital expenditure by Government and, in a general way, with the need for more public works. The Group all agreed that capital and current spending are still confused, both in funding and in presentation, in the public sector in a way that would simply not be tolerated - either by the board of directors or by the stock-market and fund-managers - in the private sector.

We suggest that the next Conservative Government changes this radically in the 1984 Budget and accompanying Public Expenditure papers. We believe that such a change - divorcing capital spending from the current account - will be beneficial to funding requirements, as well as financially correct.

The call for more spending on motorways, and sewers, and the clearance of inner urban decay was felt by the Group to be a crisis measure - something for the Government to undertake in 1984/85 in the face of continuing very high unemployment accompanied perhaps by a lowering of demand. It was agreed, though, that Britain has spent less on infrastructure investments than our industrial competitors and that, in some instances, such as the absence of good roads from the Midlands to East Coast ports, this adds noticeably to costs.

Investment in public works has a low import content and provides jobs for the unskilled. As it takes several years for major construction projects to get underway, we suggest that the relevant Departments make their contingency plans now for further capital spending of this type.

16. Conclusions

If unemployment remains very high in 1984, we have suggested a series of measures designed, inter alia, to get the school-leaver into the habit of work, to help small business and to produce more
/unskilled

unskilled jobs in the construction industry.

We have not tried to rival either the Labour claim that they will reduce unemployment to 1 million or the SDP claim to reduce it to 2 million in a few years. The Conservative Government and the Manifesto must make a virtue of such honesty, supported by the knowledge that, in recent polls, about half those interviewed did not believe that any Government could affect unemployment substantially.

We must never stop making it clear publicly that we care - and care deeply - about unemployment. At the same time we must show that unattainable promises to reduce unemployment are only fools' gold; the only way forward is by a series of special measures designed to meet the challenge imposed by the new technologies.

We suggest that the next Conservative Government examines openly the question; if full-time jobs are not to be available for everyone, how do we help to prepare school-leavers and others for the productive use of the time when they are not at work? Education and training for the intelligent use of non-working time - and the diversion of those hours into the continuing acquisition of knowledge and into learning, for example, craftskills, DIY and foreign languages - will become of great importance. Inter-reactive Cable Television should, we believe, have a major role to play in bringing "training for productive leisure" into the home.

New technology means that the scene and the solutions are changing rapidly.

"The end men looked for cometh not,
And a path is there where no man thought."

This will be even more true in this industrial revolution than in previous ones.

YOUTH UNEMPLOYMENT , EDUCATION AND TRAINING1. YOUTH UNEMPLOYMENT

There are two special reasons why the under 21 age group finds it difficult to obtain jobs. First, the standard of basic education has deteriorated and needs to be improved. Many school leavers are unqualified even in terms of the simplest reading, writing and arithmetic. Secondly, the entry level of wages in Britain is currently 65% to 70% of the adult rate. In Germany it is 20% to 40% of the adult rate.

It is vital to prepare the young with better education and to price them back into relevant job training and recruitment.

2. EDUCATION

- (a) Teachers still tend to concentrate on education as an objective in itself. Few schools see preparation for a working life, be it in management or on the shop floor, as relevant from the beginning of secondary education. More schools are paying attention to careers at the very end, but this is not enough.

We would like to see the later stages of schooling putting more emphasis on leadership: on setting of priorities as well as basic business skills so that pupils may be better prepared to manage others: and on teaching the background requirements to starting your own business.

- (b) The Youth Training Scheme (Y.T.S.) will provide some of the remedial education necessary for even the simplest job as well as general courses on and off employers' premises. In addition the Technical Educational Initiative should be encouraged in its proposed provision of technical and vocational education for 14 to 18 year olds.

Information Technology Centres, providing a one year training in computer and electronic skills, will be a useful part of the armoury.

3. SUGGESTED OR ALREADY ACCEPTED REMEDIES

We support the urgent development of the Y.T.S. It will also hopefully encourage the habit of work.

We would prefer to see it regarded as a further year of education rather than the first of employment. Jobs which do not lead to permanent employment are unlikely to be popular enough to create enthusiastic participation on the scale needed in Y.T.S.

Because of this, what comes after Y.T.S. is of vital importance.

4. WHAT COMES AFTER Y.T.S.?

After Y.O.P. 40% have been acquiring jobs and another 10% have gone on to further training. It is thought that within one year between 70 and 80% actually acquire employment. Individual company experience confirms this.

Simple career training will be adequately provided by Y.T.S. Some industries however require a longer period of training than one year. In this respect the apprenticeship schemes agreed by the Electrical and Engineering industries, probably to be followed by Civil Engineering, offer a considerable hope.

The European Council is increasing pressure for compulsory two year training, the second year to be completed before the age of 25. We would prefer to see the emphasis placed on provision of the opportunity for further training. The second year should follow immediately after the year of Y.T.S. and be used to encourage the development of more apprenticeship schemes.

There are other programmes which we believe should be given as much encouragement as possible (for greater detail see Annex B):

(a) Community Programme

There are indications that the Community Programme will find it difficult to provide 130,000 places by the end of October. Union objections were anticipated and have materialised as forecast. These must be overcome through much more public pressure on the unions.

Every effort should be made to increase the scale and effectiveness of the scheme. It should contain an educational element, and should include ancillary work which would not otherwise be provided in education, hospitals and care for the elderly. For such jobs we believe the calibre of people who can enthusiastically become involved is not particularly high.

(b) Home or Civil Defence Programme

We understand that a possible alternative form of Y.T.S. with the Armed Forces is under discussion and a campaign has been launched for the creation of a Home Defence Force with up to 700,000 volunteers.

Both these should be considered seriously.

Most participants in these programmes will be resident at home with their parents. As with apprenticeship, payment of about £25 per week plus a travelling allowance of say £6 should be sufficient for the Community Programme.

We discussed compulsion for all to participate in one of these programmes as a second year scheme to follow Y.T.S., but decided against recommending this.

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5. PRICING YOUTH INTO EMPLOYMENT

We believe this to be an important consideration if we are to increase substantially the creation early in life of the habit of work. We draw attention therefore to the following:

(a) Minimum Wages

School leaver wage levels are currently set by Wages Council minimums. We understand that prior to the lapsing in 1985 of the ILO Convention there is no prospect of abandoning or modifying the operation of Wages Councils.

We recommend that the Government should think carefully about the implications of renewal and in particular ensure that minimum wage levels for inexperienced people seeking first employment should not be set by Wages Councils.

The Electrical, Engineering and Civil Engineering Industries are all likely to agree entry rates for apprentices of £25 - £27.50; we would like more industries encouraged to follow suit.

(b) Total cost to employ

After Y.T.S. or apprenticeship, take-home pay as a percentage of total cost to employ remains very relevant. Until the employee is making an experienced contribution the two should be brought as close together as possible.

If youth unemployment remains at the present level thought should be given in the 1984 budget, for all employees up to the age of 19 or even 21, to raising the threshold for Income Tax to £2,000 (at today's value) and relieving the employer of National Insurance payments.

There is a partial precedent for such a move. Those unemployed entering Y.T.S. will be exempt from both Income Tax and National Insurance.

6. REAL JOBS FOR YOUNGSTERS AFTER YTS

The creation of jobs with future for young people must receive help. We discussed ways of making home improvement and similar types of work, normally one off or done within the black economy, offer better prospects. We find that Instant Muscle, whether on a cooperative basis or through regular employment, provides an interesting concept, and would wish to see organisations of this type helped to develop, perhaps through a strengthening of the Cooperative Development Agency. Investments in cooperatives should be allowed to benefit from the business start-up scheme or the loan guarantee scheme.

7. ADVICE & MANAGEMENT TRAINING

It is particularly important to avoid creating jobs which are likely to fail. Job Creation Ltd. pays as much attention as possible to this, avoiding the setting up of enterprises which will take employment away from existing ones in the same locality. Another aspect of their work which is much to be encouraged is making advice available. Most people who start small businesses do not know how to operate financially or legally and cannot deal with the problems which arise when they become more successful. Wider encouragement of Enterprise and Cooperative Development Agencies as well as responsible landlords would help. This is an area in which some public money should be provided.

There are few places for the would-be business man to acquire basic general management skills. There are a few MSC-supported courses at Business Schools and Regional Management Centres and some 'one day conferences and seminars run by voluntary bodies such as the London Enterprise Agency. Polytechnics and non-University Institutes of Higher Education should be asked to establish relevant short courses and evening classes.

Private colleges can be encouraged more actively to develop courses such as the two-day one on computer familiarisation run by Pitmans.

8. SKILL TRAINING AND PLANNING

In the U.K. forecasts of requirement for particular skills have almost inevitably been wrong by the time those people became available, if they ever did. This is made worse by the Skill Training Centres providing courses to suit the available trainers rather than the needs of the trainees. We think the cost of most of these could be better utilised elsewhere. Where good tutors exist they should be integrated into the existing Further Education system.

9. COST VERSUS LIKELIHOOD OF SUCCESS

It may be argued about several of these schemes that success cannot be guaranteed and that the cost might exceed the benefit. We would suggest that a two year experiment, perhaps on a localised basis, would be worthwhile. If the results are unsatisfactory, the experiment can be discontinued.

10. PENALTIES FOR THOSE WHO OPT OUT

After the successful establishment of a fuller selection of schemes both existing and as suggested in this paper, we suggest that those young people up to the age of 19 offered a choice and declining to participate should cease to be entitled to unemployment benefit.

THE CASE FOR A NATIONWIDE SCHEME OF COMMUNITY SERVICE WITH A HOME DEFENCE/CIVIL DEFENCE OPTION

1. Outline

In this paper, we set out the case for a nationwide scheme of community service, available to all young people who had left school, normally lasting for one year, designed to link in where appropriate with the Youth Training Scheme and with schemes under the Community programme, and including as an option the opportunity for a period of training in home and civil defence.

2. Such a scheme would help inculcate the habit of work amongst the young unemployed; would perform useful tasks at affordable rates of pay; would broaden the experience and enhance the "life skills" of a wide cross-section of young people; and could help significantly to enhance the defence of the United Kingdom home base.

3. There are currently on any view over 3,000,000 people out of work, including school leavers. It is likely that this figure will rise before any significant decline begins. Of the current figure, over 1.2 million are aged 24 or under.

4. In areas where such service is not currently provided and union opposition should not be sustainable, there is need for provision of service to the community at less than going market rates. It is well recognised that wages, especially for young people, are too high - boosted by habit, levels of expectation, and levels of unemployment pay. The scheme of nationwide community service would provide an acceptable framework within which young people could be organised to give such service at rates which would be afforded by the nation. A study by Enrico Collombatto of the London School of Economics has identified between 600,000 and 1,700,000 potential placements for young people working in the care of the elderly, health, education (principally primary, nursery and special schools), environmental conservation, maintenance and construction, and skills development. Such a scheme would in many ways be a natural development from the Community Programme.

5. The form which a nationwide community service scheme might take

The training of young men and women for community service and for the home/civil defence option described below would be organised locally. Participants would normally live at home, would receive a weekly payment of approximately £25 in today's money, and a travel allowance where necessary of approximately £6 per week.

The service would be manned by a skilled and experienced cadre, trained in the relevant sectors of social and community service for which young people could opt. After an initial period of training, the young person would be attached to an existing institution, e.g. a school, an old people's home, a hospital, etc., to work with and under its regular staff, /frequently

frequently on a one to one basis. The Collombatto study has estimated that the following fields could take broadly the numbers of young people set out below, and engage them in useful and constructive work. This is essential. As Professor Dahrendorf has emphasized, such work has "got to make sense and be fun".

	<u>Min.</u>	<u>Max.</u>
(a) Care of the elderly:	250,000	500,000
(b) Health (mental health, physically handicapped and care of children):	35,000	44,000
(c) Education (primary, nursery and special schools):	270,000	525,000
(d) Environmental conservation (BCTV, water and environmental control, waste and countryside):	52,000	188,000
(e) Maintenance and conservation in urban areas (social, modernisation and energy conservation):	203,000	390,000
(f) Skills development:	<u>37,000</u>	<u>120,000</u>
TOTAL	<u>847,000</u>	<u>1,767,000</u>

6. It might well be possible to offer a mix of activities including a period of sport and adventure, which might be linked with a short period of elementary home defence training for those who volunteered for it, but did not choose the main home defence/civil defence option.

7. "Defence begins at home"

The promoters of the "Defence begins at home" scheme contemplate that most volunteers with no military experience should commence their training with initial training amounting in total to a matter of a few weeks, bringing them up to Certificate A standard or thereabouts.

8. The need for home defence and civil defence

There is growing recognition that one of the most serious gaps in the defence of the United Kingdom is the lack of any substantial pool of trained manpower organised for the defence of the home base. Britain is the only nation in Western Europe, other than Eire or Luxembourg, which does not require all young men to undergo a period of compulsory military training. We lack any kind of Home Guard, have little organised civil defence, and have no equivalent to the "Total Defence" schemes of our European allies. Despite the efforts of this Government, we have little in the way of organised civil defence. It is not within the scope /of

of this short paper to develop more fully this case, which is well understood by the Commander, U.K. Land Forces, and has been cogently put in recent years by two ex-Chiefs of the Defence Staff, Sir Neil Cameron and Lord Hill Norton, and last December by the retiring Secretary of State for Defence, Sir John Nott. The objective of the home/civil defence option of national community service would be to train a high proportion of men and women, volunteering for this option, in civil defence and elementary local defence skills.

9. The form of the home defence/civil defence option

Home and civil defence training should be locally based; carried out not by the regular forces but by a special cadre recruited from the 45,000 people who leave the armed forces annually; should use such institutions as surplus schools, the 430 territorial army centres, and surplus factory accommodation. Trainees would live at home, although the training should include a period away in camp.

Young men would be trained in a variety of skills; for instance, all would be given basic training in guard duties, fieldcraft, and the use of personal weapons. There would be training in communications, first aid, and a broad range of civil defence functions. The period of service would be between six months and one year.

10. Voluntary or compulsory?

We consider that the whole scheme should be voluntary. Whatever the theoretical arguments, we none of us regard it as practical politics to introduce a compulsory scheme. Furthermore, although there is a case for all young people performing some service to the community, and the scheme should be available to any young person who applies and not merely to those who are unemployed, it is not desirable forcibly to remove from gainful employment those who have a worthwhile job they wish to pursue. But we think there is a case for providing that there should be no unemployment benefit or supplementary benefit for able bodied unemployed people under the age of 19 unless and until they have performed a year of community service in one form or another.

11. The cost

The cost of both military and community service schemes can be roughly estimated under several broad headings:

- (a) an allowance of, say, £25 given to each young person performing community service;
- (b) the cost of professional supervision and training;
- (c) administrative overheads;
- (d) the cost of equipment;
- (e) the cost of meals.

In summary, the approximate costs for a period of 12 months service might be:-

	<u>Social Services</u> <u>option</u>	<u>Defence</u> <u>option</u>
	£	£
Personal allowance) (£25 per week))	1,638	1,638
Transport) (6.50 per week))		
Supervision costs (Community service at 1/15 @ £7,000 pa) (Defence at 1/10 @ £7,000 pa)	466	700
Administration 1/20 @£7000 pa	<u>350</u>	<u>350</u>
Cost of Equipment	-	270
Cost of Meals	<u>350</u>	<u>350</u>
	<u>2,804</u>	<u>3,308</u>

It will be noted that these costs are substantially lower per individual than the cost of the Community Programme, which allows £4,500 per annum per person involved. This is because the payment in each case is confined to £25 per week pocket money, as compared to an average of £60 per week wages under the Community Programme.

12. If the scheme were to provide 600,000 places at full strength, and this would make a formidable inroad into the youth unemployment problem, and if 100,000 at any one time were engaged in the home/civil defence option, the overall cost would be:-

500,000 @ £2,804	=	£1,402m
100,000 @ £3,308	=	<u>330m</u>
		<u>£1,732m</u> gross cost

The scheme would also employ 75,000 administrators and organisers, thus providing employment for 675,000 people overall at any one time.

The net cost would be reduced by at least the cost of unemployment/supplementary benefit per young person, say £22.50 per week for the annual equivalent of 600,000 young people, which is £702m. In addition, taking the adult supervisors as people whose absence from the job market makes way for "a single adult on average earnings" to obtain a job he would not otherwise have got, the savings to the Exchequer (see appendix III of the Report of the Select Committee of the House of Lords on Unemployment) would be some

/£5,232 per annum

£5,232 per annum per job X 75,000 = £392.0m per annum.

Thus the net cost per annum for 675,000 jobs would be:

	£	£
Gross cost		1,732.0 m
Less	392.0m + 702.0m	<u>1,094.0 m</u>
Total		<u>638.0 m</u>

The basis for calculation of costs and the potential numbers of jobs have been taken from the study by Enrico Collombato carried out in December 1980 and published by the London School of Economics as Paper no. 84. The allowances have been substantially increased, as have the supervision costs which he employed. Set off costs have been taken from the Report of the Select Committee of the House of Lords on Unemployment.

We expect our figures to be challenged but have quoted them as "ball-park figures" for illustration-purposes.

UNEMPLOYMENT IN MIDDLE LIFE

1. David Young of the M.S.C. told us he regarded retraining in the middle of the working life as more important than training for school-leavers. Yet far less is being done in this sphere.
2. The Government should initiate discussions with the Institute of Personnel Managers and other interested parties with a view to developing a voluntary code of practice for redundancy counselling by firms declaring more than 50 redundancies.
 - (a) Acceptance of a moral obligation to provide counselling would stimulate private sector agencies to provide a wide range of post redundancy services.
 - (b) Job Centres should be encouraged to appoint Employment Officers who would be responsible for setting up voluntary local counselling groups in areas where private sector services were inadequate.
3. New entrepreneurs should be encouraged as follows:
 - (a) The Department of Employment should be asked to study the possibility of pulling together the various bodies in the public and private sectors, local offices of the MSC, Chambers of Commerce etc., to establish local advisory Groups to provide practical assistance to new entrepreneurs. Such groups would include bank managers, accountants and solicitors.
 - (b) Business Schools and Departments of Business Studies should be encouraged to provide a number of short (6 weeks) courses in basic Business Management. These should concentrate on the fundamentals of financial management particularly cost accounting, inventory techniques, tax and an introduction to the various publicly-financed support schemes. A Government contribution could be made by extending the TOPS scheme so that all principal centres were covered.
 - (c) Where appropriate existing agencies should be encouraged to provide a full range of consultancy services for fledgling businesses.
4. NEDO Sector Working Parties or similar sectoral organisations should be asked to undertake systematic studies to see where there were requirements for particular skills. A programme should be agreed with educational establishments to provide appropriate conversion courses for people who were redundant and wished to adapt their skills to the identified needs of a different industry. Finance could be provided by employers (public and private sector), and by the Government through a re-distribution of the education budget.

5. "Low Tech" activities for redundant people who wished to become self employed should be promoted by:

- (a) Increased provision of courses leading to a City and Guilds equivalent qualification in a range of 'artisan' and handicraft skills. Students would be expected to make a contribution to tuition costs.
- (b) Private sector initiatives to set up Low Tech Centres should be encouraged through the Co-operative Development Agency and firms such as Job Creation Limited. Such centres could, for example, provide premises and pooled services. In particular a strong marketing element should be included so that the products and services offered by members were sold in a professional manner.

PENSIONS/EARLY RETIREMENT/JOB RELEASEA. PENSIONS

(1) We have heard David Young of the MSC say on many occasions that employees in the UK can now expect to change their jobs three or four times in a working life-time, as opposed to the one or two changes that were previously normal. This makes it even more imperative that occupational pensions should become fully transferable as the employee, in mid career, leaves one job and goes to another.

We strongly suggest that, if legislation is required, Government brings forward such legislation at an early stage in the next Parliament.

(2) The aim will be for an employee to be able to take with him, when he changes jobs, employer and employee pension-contributions and a full credit for years of service to date.

The pension fund managers will argue:

- (a) that it is very complicated and
- (b) that it is very expensive.

The Government Actuary will point out there are particular problems in transferring from public sector index-linked pensions to private sector non-index linked and vice versa.

(3) We believe the complications are great but soluble, and that now is an excellent time to bring about these changes since, as a result of the rapid fall in inflation, many pension funds are in a far healthier state than seemed possible a few years ago.

In bringing about this change, there must clearly be no plunder of the existing rights of long serving employees who do not change jobs. However, the expense can be dealt with in several ways: for example, either by raising employees' contributions (one Life company estimates transferability will require an additional 2% of salaries) or by advising employees when they join a new scheme that their pension will be transferable but that there will be a cost as a transfer fee in the year when a change of job takes place.

(4) An alternative is that the employee should be able to invest his contributions in pension schemes of his own choice rather than necessarily in his employer's scheme. This would have the advantage of increasing the number of pension fund managers and of widening the range of investment options. Many people would, however, be tempted to invest in excessively optimistic schemes that, in the event, would not provide the retirement-income that was hoped for. We think therefore the argument for this is less convincing than the argument developed in Annex E that the employee should be able to switch a part of 15% of gross salary annually away from pension schemes in to investment in equity schemes such as the Business Starter.

/B.

B. EARLY RETIREMENT

(1) We accept that the cost to Government of lowering the statutory age of retirement is very great, and we are not convinced that people should in any sense be forced to take retirement earlier than they want.

We believe that there will in any event be a slipping-down of the age of retirement and Government can encourage this among its own employees without legislation. Particularly we feel that it is equitable for the retirement age to be levelled out at the same age for men and for women - perhaps 62. As it is established actuarially that, at the age of 60, the life expectancy of women is $4\frac{1}{2}$ years longer than that of men, it is anachronistic that the statutory retirement age for women should be 5 years short of that for men.

C. JOB SHARING/JOB RELEASE

(1) Despite its slow start, we are very impressed by the experiment with job sharing. We hope this will be continued and encouraged. It seems to us self-evident that the number of part-time jobs will increase as a proportion of all jobs, and that a part-time job is a very attractive option for people both at the start and at the end of their working careers.

Quite apart from the training that is available at polytechnics, adult education centres etc., we hope that interactive Cable Television will be used in part to make more training available at home, both for work and for leisure-hobbies for those in shared jobs.

(2) We are encouraged by what we have heard of the Job Release Scheme. We think it advisable for the continuation of this Scheme after 1984 to be announced as soon as possible so that those who are now around 60 can start to plan the remaining five years of their working lives. Job release terms should not be affected by a wife's earnings.

(3) We were very pleased that the Budget introduced the proposal that the Job Release Scheme could be tied in with job sharing for employees aged 62 and over. We very much support further developments along this line.

We question whether it is necessary to continue the £750. fee to employers per job shared. Once employers have got the hang of job sharing, the administrative costs should be minimal and are more than offset by the absence of absenteeism.

(4) We appreciate that there will be a pension problem in job-sharing. This can be dealt with in occupational pension schemes at the same time as the transferability question is resolved as suggested in Section A above.

PENSION FUNDS/PARTIAL INVESTMENT OF CONTRIBUTIONS
IN BUSINESS STARTUPS AND PARTNERSHIPS

1. Our objective is to encourage:
 - A. Employment
 - B. Enterprise
 - C. Individual industry and individual commitment.
2. At present up to 15% of salary may be contributed, at gross level, free of all tax to pension funds. Furthermore, most company pension schemes take less than 10% from the employee.
3. The prudent employee will invest the other 5% allowed to him free of tax to purchase anything in the 'pension shop' - in an Additional Voluntary Contribution (AVC) scheme or something similar. It is by far and away the best investment he can make because his money is contributed gross, income on it is received gross and he only pays tax when, as a pensioner, he receives benefits.
4. However, this means that these funds are going to fund managers, and others whose investment policies are essentially conservative.
5. We recommend that approximately 5% (one-third of 15%) presently going in to AVCs be allowed to be invested instead on a gross basis in unquoted businesses, research and development partnerships, or other partnerships which constitute bona fide businesses. Preferably this permission would be available to members of the family as well as to outsiders. The Inland Revenue will suffer no loss as this 5% is already being invested gross. In fact, the Revenue are likely to see a taxable income (either as dividends or as CGT) arising from this proposal sooner than they would from the pensioner income.
6. The numbers who are on salaries in excess of £20,000 who have business experience and who could afford to make this investment are increasing each year, whereas those with surplus capital available to them to invest are not a growing group. We should seek to harness the savings and the commitment of senior salaried people to the objectives of starting small enterprises.
7. The problem is reasonably to ensure that the money is invested in a bona fide business or partnership and not one which simply goes out and buys (for example) antiques for the donor's house. At the same time, it is essential to avoid the all-encompassing qualifications which the Revenue have placed upon earlier schemes. It is essential to bear in mind the objectives mentioned in 1 above and, in particular, the desirability of individuals having the personal commitment to ensure the success of their own money that they have invested in this way.
8. The problem can be solved with a simplified business start-up scheme similar to the existing start-up scheme but pruned of unnecessary restrictions, particularly since the funds would in any case have been tax-free had they been invested in traditional pension schemes.

9. There is a powerful anti-avoidance provision in the existing start-up scheme which denies relief on artificial transactions. Another prevents the investor getting back his investment while keeping his tax relief. "Undeserving" cases like share dealing are also excluded. All of these provisions would be appropriate for the scheme now proposed.

10. The Business Expansion Scheme should permit the business to be in partnership as well as in the form of a company. The same tax relief, for the introduction of new capital or loans, should be available to partnerships as is available, under, for example, the Interest Relief Rules, to companies. The timing of the relief is crucial - there should be rules to allow the employee's Schedule E coding notice to be adjusted during the tax year when he makes the investment.

11. The self-employed should be allowed to treat a qualifying investment as a trading loss to be carried back to the previous year. Because of the previous year basis of assessment of the self-employed this should give them the tax relief in the year when the investment is made.

Annex F

SMALL BUSINESSES: INCREASING THEIR POTENTIAL
FOR JOB CREATION

1. Understanding mentality in the small business:

Anyone who has never owned or worked in a small business has difficulty in understanding that particular environment and the mentality of those in such firms.

The mentality embraces:

- (a) A fierce ambition and commitment to devote energies to producing, rather than administering statutory regulations.
- (b) A willingness to forego current income in favour of re-investment to provide working capital for expansion.
- (c) A rejection of security, bureaucracy and nannying by national and local government.
- (d) A pride in independence.

2. Employment provisions to be further relaxed:

Small businesses should be permitted by law to offer employment contracts (witnessed by third parties) to potential employees that include agreement to opt out of some employment protection provisions (e.g. redundancy) and other Government legislation that does not affect vital health and safety at work matters. These contracts should be renewable every 12 months.

3. Treasury measures on small businesses:

Income Tax Recommendations:

- (a) Undrawn income, instead of being liable to income tax, to be capable of conversion, gross, into working capital by sole traders or partnerships up to a certain size; such addition to capital to be liable to tax only when drawn from the business or transferred.
- (b) Tax holiday for two years on small businesses, started by those leaving full-time education.

Business Start-up

Members of the family should be allowed the same tax treatment in terms of the Business Expansion Scheme, or other loans or investments made to small businesses, as outsiders. We appreciate the Inland Revenue objections to this but nonetheless regard members of the family as those most likely to risk their savings. They need to be encouraged.

/Capital Taxation:

Capital Taxation:

Shares in small companies should after the first allotment be capable of distribution once without consideration to any members of the family of the shareholder to whom they were originally allotted, without attracting Capital Gains Tax or Capital Transfer Tax until their value is realised or they are again transferred.

4. Reduction of Statutory Inspectorate powers:

All statutory rights regarding VAT and tax raids on houses and business premises should be simplified and consolidated in one Statute. The small businessman needs to be made more fully aware of the procedures in any easy-to-understand form. In this respect we support the recommendations of the Keith Report. In general, we think the businessman is entitled to the same protections against search for evidence as will apply under the Police and Criminal Evidence Bill to other serious offences.

5. Changes in Local Government Regulations:

We think that it is often too difficult and it takes too long for the individual to obtain planning consent to set up a small business in, for example, his garage or in another unoccupied building.

When a building has been unused for, say, six months we consider that an automatic licence should be available, valid initially for two years, for alternative commercial use. A two-year moratorium on rates for such use of previously unoccupied buildings would be of great assistance to the start-up.

6. Patents and Inventions:

The Government should encourage all larger companies to sponsor the establishment of small businesses to develop retained patents and inventions so far unexploited.

THE PRESENTATION AND USE OF EMPLOYMENT STATISTICS
AND THE NEED FOR MANPOWER ASSESSMENT

1. EMPLOYMENT STATISTICS

1.1 We consider that the nature of the public debate over unemployment in Britain not only damages the Government politically but obscures and obstructs sensible policy making by Government and sensible decision-making by business.

1.2 The "Headline" total of the number unemployed released each month by the Department of Employment has in the past pushed Governments into unwarranted reflation; resulted in ineffective and damaging regional incentives; and led to a concentration of Special Employment Measures on particular groups at the expense of others. The erroneous policies which followed have resulted in enormous costs both to the public purse and to the private sector.

1.3 We therefore propose that

(a) The employment and unemployment figures be further "disaggregated" to give a better indication of where jobs are growing, what skills are needed, and what skills are not needed.

(b) Greater use be made of household and establishment surveys to indicate what proportion of the unemployed are in a poverty or unemployment trap; the black economy; unfit or too old to work; not seriously interested in work; occupational pensioners etc. Different policies could then be applied to meet the needs of each group. We appreciate the dangers of publishing these separate figures but, nonetheless, consider it worthwhile.

(c) The Manpower Services Commission should publish an Occupational Outlook, along the lines of that produced by the US Bureau of Labour Statistics. It would be invaluable for careers counsellors, educationalists and employers as well as encouraging a more positive public outlook on employment, unemployment and the impact of new technology.

(d) A wider variety of major unemployment "indicators", all based on different assumptions, should be published simultaneously by the Government. This would diminish the importance of the politically damaging "headline" total.

2. MANPOWER ASSESSMENTS

2.1 We did not accept the view that the impact of new technology on jobs was wholly negative, and were concerned that the adoption of manpower and training policies to cope with it was being hindered by a lack of accurate information on what skills would be required.

2.2 We suggest that the work of manpower projections would best be done by an independent professional business - like an industrial consultancy - rather than by Government Departments, the Manpower Services Commission, NEDO or academic institutions. The consultancies would work not from official statistics but from information supplied by private companies and organisations with experience of the impact of new technology on their own company and companies abroad.

2.3 We do not consider that the work would need to be funded by the taxpayer, so long as business felt it was of practical use to them. An employers' organisation - like the EEF - could sponsor a study with a contribution from one of the major foundations (eg Shell, Ford, Cadbury, Burroughs Wellcome, Unilever). Staff might be seconded from major companies like IBM. The results of each study could be published and offered for sale. We note that the Occupational Outlook is the best-selling government publication in the USA, since it is so widely used.

UNEMPLOYMENT - POLICY FOR THE REGIONS1. INTRODUCTION

Just as there can be a policy for incomes without repeating the failures of "Incomes Policy", so it is possible to have a policy for the Regions which reinforces success and avoids the failures of past "Regional Policy".

2. THE PROBLEM

Unemployment is generally higher in the regions away from London and the South East (L & SE) because:

1. The regions contain a higher proportion of "yesterday's" industries.
2. Generally low rate of formation of new industries and services.
3. Low employment in the faster growing sectors of the economy - government, service industries, and those occupations not subject to international competition.
4. Movement of ownership to L & SE causing:
 - (i) Reduction in supporting service employment
 - (ii) Greater readiness to close down production "limbs".
5. Movement of abler (i.e. intelligent and energetic) individuals to L & SE causing a shortage of capable management, and a reduction in innovation - i.e. intra-national brain drain.
6. Very low counter-flow of industrial/professional brain power.
7. Low labour mobility and flexibility.
8. Limited resources for mid-career training.

3. THE OPPORTUNITY

The opportunity for a successful regional policy exists because each of the regions possesses most if not all of the following factors:

- a. Space - Nowhere in the country is there such congestion as in L & SE.
- b. Talents - The regions produce a wealth of well-educated motivated manpower, much of which has to seek careers elsewhere.
- c. Facilities - Due to economic decline many regional facilities are underused.
- d. Lower Labour Costs - Obviously, these are available, and can be retained provided the market is allowed to function without monopoly distortion (e.g. by powerful unions).
- e. Congenial Environment - In many areas there are recreational /facilities

facilities and opportunities not available in the congested L & SE.

f. Lower Cost and higher availability of Housing.

4. WHY ANY POLICY AT ALL FOR THE REGIONS?

- (a) Excessive inequalities in standards of living in different parts of the country could produce social and political tensions threatening the whole nation.
- (b) Natural economic forces might even matters out in the long term, but with wasted resources and substantial economic and social costs during the transition period.

5. ASSUMPTIONS

Regional development so far has had only limited success, principally in the New Towns. Apart from international inward investment, much of it expensively acquired, net job creation has been slight and the small net transfer to the regions has frequently created precarious employment (e.g. Skelmersdale, Linwood). All policies have encouraged capital intensive industries, which in themselves may be more desirable but have limited labour take up, much of which is "imported". No policies have aimed to encourage service and support industries (e.g. computer software, financial and other professional services etc.) which are much more skilled labour intensive. Service industries are as important to the Regions as are manufacturing industries.

6. A NEW APPROACH

Regional Development Grants should be phased out. This will release resources to be used on the development of "localised growth points" in the natural heartland of each region. The catalytic characteristics of these local growth points will give them a magnetic force sufficiently strong to counter-balance the pull of London and the South East. The analogy with Hamburg and Munich as counter-weights to the pull of Bonn/Dusseldorf/Cologne is obvious.

Variations in style and emphasis should be encouraged, with centres of excellence being founded both on regional strength and on initiatives unfulfilled elsewhere.

Among pre-conditions for success will be:

- (a) Central Government strategy and commitment to the concept.
- (b) Definition of objectives and means of achieving them must be devised in the regions themselves. New mechanisms are needed to correlate central and local government, industry, commerce and other relevant organisations. In devising new mechanisms we appreciate the difficult struggle between central and local government. We look with interest at the example of the Scottish Office which, as an all-embracing department of central government, is performing many of the functions that we see as necessary for the English regions.

/(c)

- (c) Excellent communications from heartland to hinterland, between heartlands, and with good direct access from heartlands to Europe as well as London.
- (d) Quality of life and development of regional identity - support for cultural, recreational and sporting activities should have a shift of emphasis away from the metropolis to contribute to the attraction.

7. ADDITIONAL PROPOSALS

- (a) Removal of the manifestations of industrial dereliction and decay - the derelict areas present both a problem and an opportunity for development which is unlikely to recur.
- (b) The setting up of various centres of technical excellence which would be linked to existing universities.
- (c) The extension of the "Enterprise Trust" and ITech concept. Schemes developed by private enterprise should be expanded and exploited.
- (d) Improvement of labour mobility by easing the exchange of houses. It is worth investigating whether it would be advantageous to adopt Scottish conveyancing systems in England and Wales. The abolition of rent control would help with labour mobility.
- (e) Expansion of factory building programmes by making building specifications more economic and realistic.
- (f) The encouragement of international inward investment - although we recommend the phasing out of Regional Development Grants it would be desirable to maintain the concept of Development Areas in order to:
 - (i) Draw on funds available from the EEC
 - (ii) Attract international inward investment, which should be confined to projects introducing new techniques, working methods or export markets.

PERSONAL AND CONFIDENTIAL

may recall the groups were not asked specifically to make recommendations for the Manifesto, but rather to report on ideas for the next five years. This, indeed, is what they have done. There has not been time to study them fully yet, but the preliminary judgement of the Chancellor's meeting was that while most of them contained interesting and important proposals, proper consideration was essential first - not least by the colleagues most affected - before recommending them for inclusion in the Manifesto. For that reason, I imagine that the Prime Minister may not want to do much more initially than study the short summaries to be found at the front of most reports. The Chancellor and Chairman are sending the reports to the relevant colleagues for their consideration, and many should have already received them. Colleagues have been asked to identify potential Manifesto points as an early priority. As the Reports make many heterogeneous proposals there is, of course, no single answer to the question as to how they should be handled hereafter.

6. I have not had time to undertake a precise word-count, but I suspect that the figure would be a little over 11,000 words. This could be brought back to 10,000 or so fairly easily by further editing. However there are a number of matters which this draft perhaps does not deal with fully enough (e.g. BR), or in some cases, at all [e.g. early and flexible retirement]. These are indicated by very brief square brackets, as are a few points and figures which need checking, or bits of text which could be dropped.

7. We have had inconclusive discussions about the important question of a title. The best anyone could come up with - admittedly not after prolonged thought - was "The next five years". But clearly there is a respectable case (at least) for following last election's formula and calling it "The Conservative Manifesto 1983".

8. There is usually a leader's forward, and I think everyone has assumed one will be needed this time. There are some points which are natural candidates for inclusion in it which the Chancellor and I have identified, and of which two copies are attached to this letter.

9. At this stage questions of time-table, printing, design, background briefing and questions of policy become very important. If it is desirable to have a near final text in Galley by May 5, then the text will have to be completed and despatched by May 3.

10. In the meantime the Chairman and the Chancellor are convinced that we should get ahead as best we can with all the advance work which can be done to deal with "Questions of Policy" so that candidates will be well-armed as soon as (or even before) an election starts. Ideally this will need to cover not only the standard issues which come up in every campaign (such as War Loan!) but a number of tricky issues which are not for various reasons dealt with very fully in the Manifesto. A good example of such an issue is Civil Service Inflation Proof Pensions; and a good many others can be identified easily.

INFRASTRUCTURE INVESTMENT (PUBLIC WORKS)

A. There are three arguments for considering this subject. They are:

1. Unemployment If unemployment remains as intractable as it now appears, there could be a case for the self-evident and very direct use of public sector funds through the construction of public works. (This perhaps assumes that we have reached a point at which unemployment has become a greater political concern than PSBR.) On the other hand, the actual cost to PSBR will be considerably less than the gross value of the works undertaken because of reduced numbers on unemployment and other State benefits; increased payments of PAYE and corporation tax; and the other less direct benefits to PSBR of stimulation of related industries - plant manufacture, materials producers, etc.
2. Infrastructure Investment Nationally we have not made the investments in infrastructure that our industrial competitors have made (figures for this available). It is patently damaging to our manufacturing and other industry not to do so. To give only one example - since entering the EEC, the most important export market for Midlands manufacturers has become the EEC - and yet it takes two lorry days to reach and return from the East Coast ports. This is an additional cost burden, which ought to have been halved by the construction of a good standard of road (not motorway) from the West Midlands right through to the East Anglian ports.
3. The Civil Engineering Industry As is well known, the Civil Engineering industry has been running at about 60% of capacity for a number of years, and could readily accommodate a programme of investment in public works.

B. There are a number of subsidiary considerations:

1. It can be argued that it is desirable to establish much more clearly the distinction between public expenditure on current spending and that on capital investment. It is a distinction essential to the intelligent management of any large entity. It can further be argued that, if public current spending is met by current income, then to extend the PSBR to finance the State's obligations to invest in national infrastructure is a proper use for such borrowings and reflects the long-term returns and benefits which accrue from such investment.

We favour the next Conservative Government clearly splitting its Public Expenditure White Papers into separate documents, one series covering spending on capital account, the other that on current account. Consideration should be given to the revival of a Public Works Loans Board and its issuance of Government Capital Bonds, the proceeds of which could only be spent on capital projects. Apart from the other reasons stated above, we consider such a move would encourage the Gilts Market.

2. The question of the amount of current expenditure which would arise as the direct result of any given investment needs to be considered. This has been used by local authorities as an argument to justify capital underspend. They are also concerned that no carry-over of capital budgets is permitted from one year to the next: such a restriction aborts proper planning for the use of capital funds. The initial planning of any project must include an assessment of the benefits to be gained from the investment - whether that benefit is directed towards industry and commerce as in motorway/roads, or social as in much local authority work. Clearly works which do nothing but satisfy town hall egos should be discouraged. It should be emphasised that motorways, sewers etc. demand little current cost when complete.
3. Public works result in relatively very small amounts of imports. Would they result in Irish labour being imported? Given the present relationships with Eire the answer must be yes to some extent - however, there is so much unemployment in the construction industry already registered here (400,000) that the vast majority must be drawn from that pool. N.B. Motorways, roads, sewers etc. do not use a high proportion of craftsmen but do employ unskilled operatives, who make up the majority of the unemployed construction workforce.
4. It will be seen from Annex H on Policy for the Regions that we advocate the ending of RDG and concentration on good communications between the capital, the ports and the regional 'heartlands' as one of the remedies for the regions. This paper supports that view.
5. It is worth emphasising the vastly different cost to PSBR of tax cuts compared with the investment here advocated. On the one hand tax cuts are an almost total addition to PSBR, whereas investment in public works re-employs those at present on social security, and it generates personal tax and corporate tax. Again in job creation terms relatively few jobs are created by tax cuts - and all of them indirectly - whereas construction investment guarantees many jobs, both directly and indirectly. Thus, in terms of PSBR cost/job created, much advantage arises from following the course here advocated.