

PRIME MINISTER

Prime Minister!
Agree the proposed
study?

DLW
26/9

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Agree (2) -
I think

UNEMPLOYMENT IN THE NORTH EAST

Earlier this week, I spent two days visiting various ^{decisions with very} ^{sensitivity - not by} ^{written decisions} ^{mt.} employment and enterprise schemes in the North East. You may be interested in a few observations and anecdotes.

1. Regional Wage Variations

I was surprised by the fact that few people gave any serious thought to the relative competitive position of the North East within the UK.

While there is obviously no easy panacea for the high unemployment regions, market forces would, over time, be expected to lead to a widening differential in wage levels. If skilled labour were readily available in the North East at 20-30% lower cost than in the South East, the current battery of regional aids and incentives should be unnecessary to persuade firms to invest in that region.

While there is a small wage differential already (and a significant differential in property prices), further adjustment is hindered by two factors.

1. National wage negotiations, particularly in the public sector, give no regard to regional variations (except for a small London weighting) and as well as covering a significant proportion of employees directly, also set wage expectations more widely for comparable jobs.

2. Poor work incentives resulting from the workings of the current benefit system mean that even current wage levels are often unattractive - particularly in the North East where there is a much higher proportion of older, married men in the unemployed as a result of industrial restructuring. Further downward pressure on wages would thus make it even more difficult to attract the unemployed back to work.

Difficult though this problem is to tackle, I suspect we will not really solve the regional problem until we have addressed these fundamentals. The Treasury is beginning to press this year for greater regional variations in public sector pay, and this should clearly be pressed as hard as possible (against traditional Treasury resistance to losing national control). The Fowler benefit reforms should help remove some of the current work disincentives, but it may ultimately be necessary to find some way of linking benefits to regional wage levels rather than national norms (justified on the grounds that people in the more expensive areas of the country clearly need additional help to maintain the same living standards). While no moves could be made rapidly, it would be worth calling for a confidential analysis and report on the policy options for regionalising wages and benefits.

2. Restart

Restart is still achieving good results, but local

officials are now worried about loss of effectiveness as the community discovers how to play the rules of the game. In particular, there is an increasing tendency for people to get through the interview by agreeing to go on the one week restart course and then simply failing to turn up (when there is apparently no follow-up!). Department of Employment officials are aware of these loopholes and are looking for ways to tighten up, but it emphasises the difficulty of avoiding fraudulent claims without the ultimate sanction of requiring work for benefit. This is why the direction of Lord Young's new proposals could be very important.

3. Credit Only Claimants

In many Northern local authority areas, it is possible for registered unemployed (with a UB40 form) to get half price travel, free use of social facilities, free school lunches, etc.

Under the current rules, women who claim they are available for work are able to register as unemployed and get a UB40 form even though they are not eligible for any unemployment or supplementary benefits (although they do receive National Insurance credits). There is still some dispute about how many people are involved, but it appears the number of credit only unemployed could be several hundred thousand nationwide. While many may be genuine, local officials believe there is a significant group who pick up the card simply to get their local "passport" without intending to

work. The Department of Employment is aware of this problem and is looking for ways to discourage this practice - including stricter availability testing.

4. Northern Development Company

I met with the Chairman and some Board members of the new Northern Development Company, which was set up by the local CBI, unions and local authorities after your visit last year to provide a more effective mechanism for regional promotion than the current NEDC. They are enthusiastic and committed, and are likely to formally take over from the NEDC in the next few months. However, they have yet to produce a clear programme for the specific actions they intend to pursue over the next year. Once they are a bit further down the road, you may want to give them some further encouragement and publicly associate yourself with their initiatives.

Recommendations

1. Request the Treasury and DHSS to prepare a confidential study on practical policy options for achieving greater regional variation in public sector (and thus other) wages while maintaining work incentives.
2. Be prepared to meet up with the Board of the Northern Development Company early next year. //

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