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*C. F. Mount.*  
*JTI Pullo*  
*Discussed with Mr Bailey*  
*PA*

CABINET OFFICE  
Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 - 7798

Qc.03144

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*Dear Michael,*

Unemployment: Seminar

As suggested at the Prime Minister's meeting on Monday evening, you have asked us to prepare a check-list of action points arising from our unemployment report, and from that discussion, to be sent out to the Prime Minister early next week for her to consider next steps. In parallel, you have proposed that Peter Gregson should produce a note on the handling and timing of this further consideration.

2. This is complicated, both as regards what is in our unemployment report (we are asked to focus on practical steps but do not want to lose sight of the strategic issues) and what is not in the report (further proposals made on Monday evening, and in the Minford/Smith report). However, I enclose a draft note which, if the Prime Minister agrees, could serve as a basis for Ministerial discussion. I should be grateful for your comments (and any from Peter Gregson to whom I am sending a copy of this letter) before it is submitted formally at the beginning of next week. You will want to consider in particular how the Minford/Smith recommendations are treated, in view of the Prime Minister's decision about its circulation.

3. I also enclose a fairly full record of Monday's meeting, which we agreed need not go further than No.10, assuming that the check-list gets circulated more widely.

*Yours,*  
*Alan*

A M BAILEY

M C Scholar Esq  
10 Downing Street

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Draft Minute to Mr Scholar

UNEMPLOYMENT

I attach a note which sets out:-

- (a) the main issues for Ministerial discussion and decision arising from the CPRS report on Unemployment;
- (b) other points for action arising from the informal discussion which the Prime Minister held with some colleagues, advisers and members of the CPRS on Monday 13 September.

As to handling, I suggest that, if the Prime Minister agrees, you should send the note to Departments asking individual Ministers to consider the specific proposals in their own areas of responsibility (paragraphs 3, 8 and 9), and set in hand further work where necessary; and proposing a meeting of Ministers to consider the strategic approach and the presentational problem (paragraphs 4-7).

2. I also attach a draft letter to the Secretary of State for Social Services, informing<sup>him</sup>/of the specific remit given to the CPRS at Monday's meeting, on the reform of benefits for the unemployed, and seeking his Department's assistance in this task. The draft letter indicates our thoughts on how this remit might be carried out.

3. Finally, I should mention the need to carry forward consideration of the CPRS report on the Black Economy. A number of steps that Ministers might take are listed in the report (Chapter 6). They concern the Revenue Departments, Employment and DHSS. The Ministers in these Departments might therefore be invited to consider the recommendations.

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Unemployment: Issues for discussion and decisionNote by the CPRS

1. This note sets out what in the CPRS view are the main points for Ministers to discuss and decide on our report on unemployment. It also identifies some additional points which arise from a separate report on unemployment commissioned by Professor Walters ("the No 10 report"), and from discussions held by the Prime Minister on 13 September.

2. The note lists in turn:

(I) specific remedies

(II) strategy

(III) presentation

(IV) other topics

I. ~~(\*)~~ Specific remedies (quoting paragraph references and indicating which Department or Departments should pursue further work).

3. We recommend that the following specific issues should be pursued:

a. Develop the pilot 'enterprise allowance' scheme for unemployed would-be entrepreneurs into a cost-effective national scheme (5.33b, DE).

b. Commit the Government to abolish all wages councils in 1985; <sup>and concurrently</sup> mount a campaign ~~of public education~~ to correct public misapprehensions about the link between low pay and family poverty and to persuade public of the link between pay and employment (6.3, DE and Lord President's Office).

c. Commit the Government to lighten further the regulatory burdens on small employers. Reconsider the following specific options previously rejected (DE);

i. release firms employing less than say 50 workers from statutory obligations to make redundancy payments;

ii. make unfair dismissal protection optional (say for new businesses or for businesses with fewer than 50 employees);

iii. raise <sup>the</sup> ~~to 50~~ ceiling (5 employees) below which firms may gain exemption from duty to reinstate women after maternity leave, and make exemption unconditional.

d. Restructure benefits for the unemployed<sup>(1)</sup>. For example:

- require supplementary benefit recipients after 3 months to accept any safe work which gives them an income, after in work benefits, no worse than benefit income when unemployed (7.16);
- cap individuals' benefit entitlement at 90% of previous net income in work (7.13).

NB. The Prime Minister has asked the CPRS, with assistance from DHSS to prepare fuller proposals on benefit reform designed to improve work incentives for young people in particular.

e. Improve the effectiveness of in-work benefits:

- In the short term, market FIS better (7.10), extend it to part-timers and provide a more gradual taper (7.19c, DHSS);
- Devise a replacement for FIS to be included in the wage packet (7.10, DHSS, Revenue);

f. Extend the Young Workers' scheme to 18-25 year olds with a £60 wage limit, and to the domestic household sector, and increase its marketing budget (6.14, DE).

g. Commission/<sup>a</sup>detailed study of scope for domestic households to offer work to the unemployed, how obstacles might be overcome and what positive action, including household tax allowances, Government might take (6.13, ~~inter-departmental~~, *DE and other departments*).

h. Devise a balanced programme of changes in company taxation, national insurance and regional incentives designed to reduce both capital subsidies and labour taxes (6.11, HMT, DHSS).

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(1) The No 10 report recommends collecting a larger pool of vacancies to test availability on this basis, capping benefits at 70% of previous net income. At the 13 September meeting, it was suggested that benefit recipients should show evidence of active job search.

i. Revise public expenditure planning and control procedures to take more account of employment objectives:

- document the employment impact of spending options and the real outputs of special employment measures so that Ministers can decide the 'best buys'

(9.9, 9.25, HMT)

whether labour

- examine in particular/intensive construction contracts could be a better buy than community work (9.9, DE, DOE)

- introduce targets for annual running costs, rather than manpower targets, to reduce bureaucracy (6.16, HMT).

j. Encourage more early retirement in short-term: by extending the Job Release Scheme to 60+ year olds, including a partial retirement option (9,18); and allow 50-59 year olds to retire after 2 years' continuous unemployment (9.25e, DE).

k. Include basic remedial education, where needed, in existing MSC and DHSS programmes for training the long term unemployed or preparing them for work (9.21c, DE, DHSS, DES).

l. Stimulate local voluntary and informal initiatives to improve the educational attainments and employability (notably for non-manual jobs) of the long term unemployed (9.25b, DES and DE).

## II(2) Strategy (Chapter 4)

4. In addition to consider specific remedies, we recommend that Ministers should discuss the report's general strategy for reducing unemployment.

Among the main points are:

a. A generally improved supply performance (eg on innovation, entrepreneurship, ~~tough and entrepreneurial~~ management) is an essential component of any solution for unemployment. The battle has to be fought across a broad front.

b. ~~Measures to secure~~ Labour market flexibility (including ~~flexible~~ <sup>market-clearing</sup> wages) are equally a precondition for curing unemployment. ~~This is insufficiently understood and~~ <sup>This is to secure this</sup> The scope for such measures <sup>has been</sup> insufficiently <sup>is explained</sup> explained inside and outside Government. Hence the report concentrates on them.

c. The obstacles to using ~~as~~ labour market flexibility as the route to more employment are numerous [~~see Annex ?~~]. No measure taken in isolation can be expected to produce dramatic results. Hence the long list of measures suggested in para 3 above.

(d) A formidable obstacle is the extent to which stable high wages and low manning levels are perceived as being in the best long-run interests of sizeable organisations (ie in what we call the "primary" sector).

The most practical way of overcoming this will be to break down large organisations in public and private sectors, thus increasing the market share of small and new businesses, (which are already more flexible); and to give this "secondary" sector greater freedom to set their own wages and conditions of employment.

5. The following are, we suggest, the main practical lessons for policy:-

(a) It will be necessary to pursue with greater vigour contracting out, privatisation, competition (pp 56-61) and lightening burdens on small firms (pp 64-66).

(b) Policies towards unions should place particular emphasis on (a) preventing unions from obstructing contracting out etc and hamstringing (directly or indirectly) what we call the "secondary" economy; and (b) encouraging them to play a constructive role in the "primary" economy where they belong. (a) calls into question among other things the TUC's role on the MSC (pp 51-53).

(c) Despite the acknowledged political difficulties, there is a clear need to lower the "wage floor" by changing public attitudes about low pay, abolishing wages councils and reforming benefits for both the employed poor and the unemployed.

### III Presentation

6. Public beliefs (often shared by management) appear time and again in the report as a major obstacle to cures for unemployment; eg beliefs that unemployment is a problem of demand, that there is an absolute right to (at worst) maintain living standards; that there is a direct link between low wages and family poverty, and that there is no direct link between wages and employment. Unless or until there is greater understanding and acceptance of the Government's position on these issues, we believe it will be extremely difficult to gain consent for our recommended strategy.

7. We recommend that Ministers should consider whether the report provides a useful basis for improving understanding (inside as well as outside Government) and if so how its message might be built upon and disseminated, eg in the Government's response to the House of Lords Select Committee Report.

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IV Other topics

8. The following additional points, relevant to supply performance, were identified as action points in the discussion which the Prime Minister held on 13 September (some also featured in the CPRS report).

- (a) Education - improve the relevance of the school curriculum, standards attained by school leavers and the certification of these standards (5.8); make it easier for people to attain the full potential through vocational rather than academic education (5.5, DES).
- (b) Training - apply effective leverage to secure apprenticeship reform, taking account of plans for the Youth Training Scheme (DE); develop idea of vouchers for adult training (MSC); reconsider possible use of forces to train young unemployed (MOD).
- (c) Entrepreneurship - review the rules governing the Business Start-up scheme to eliminate unnecessary restrictions (DI, Try).

9. The CPRS report also makes proposals in the following policy areas. We suggest that individual Ministers responsible should take these forward if they see merit in them:-

Employee involvement (p.53), flexible working hours (pp.86-87), alleviating unemployment (pp.99-100)	D/E
Labour mobility and housing (p.55)	DOE
Competition policy (pp.56, 57)	D/Trade
Small firms (p.61), innovation (pp.62-63)	D/I

NEXT STEPS

10. Ministers are invited to consider:-

- (a) whether they endorse the specific proposals in paragraph 3 and which should have priority;
- (b) how far they accept the strategic approach set out in paragraphs 4-5; and what practical implications this has for Government policy;
- (c) how to improve public understanding of the issues discussed in the report (paragraphs 6-7).

11. Ministers are also invited to consider individually the specific proposals for action (paragraphs 3, 8 and 9) within their own areas of Departmental responsibility, and to see that these are pursued.

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DRAFT MINUTE FOR MR SCHOLAR

TO PS/SECRETARY OF STATE, SOCIAL SERVICES

cc P/S Chancellor of the  
Exchequer  
P/S Secretary of State  
for Employment  
P/S Secretary of State  
for Education and Science

BENEFITS FOR THE UNEMPLOYED

1. As you will know the CPRS has recently completed a report on unemployment\*. The Prime Minister has given some preliminary consideration to the report. She is particularly interested in the proposals to reintroduce a wage stop on individual benefits, related to previous net income in work; and to tighten the rules which permit people to refuse "unsuitable" work and still receive benefit.

*The Prime Minister believes that there is a strong case for action*  
2. ~~Mrs Thatcher~~ *feels that the time has come to reform benefits, to improve incentives and work attitudes, particularly in the case of young single people.*

3. She ~~has~~ *therefore* asked the CPRS to follow up their report by producing - before the end of this year - a set of practical proposals for reforming benefits for the unemployed. This work will need to distinguish between the circumstances and incentive problems of the young and single on the one hand and heads of families on the other. Account will need to be

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\* [A report, attached for your personal use only, has also been prepared by a team from Liverpool University under the direction of Professor Walters.]



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taken of experience in other countries - it is the Prime Minister's impression that few other countries (if any) have so comprehensive and accessible a welfare <sup>system</sup> ~~safety net~~ as Britain. It will also be useful to establish what is known about the absolute living standards of different categories of unemployed people here, since this will affect the scope for change.

4. The Prime Minister would welcome any views your Secretary of State has on the work proposed. She also hopes that your officials will be able to make a substantial contribution to the work, since the CPRS will need to rely heavily on your Department's knowledge and practical experience.

5. Copies of this minute go to (as above).