

UNEMPLOYMENT: THE NEXT STEPS

The two unemployment studies from the CPRS and from Professor Minford are different in style. But they do agree on the main things to be done.

- i. Some reduction in income tax on the lower-paid.
- ii. Some improvement in FIS and child benefit to help poor working families.
- iii. Some device - CAP or wage-stop - to attack the Why Work syndrome.
- iv. Some kind of no-benefit-without-work scheme - "Workfare".
- v. Some further steps to reduce trade union immunities.
- vi. The abolition of Wages Councils and other impediments to the labour market.

There is a surprising degree of agreement in the studies about what to do next. The question now is when, how and how much.

Timing

The political pressure this autumn to take some action will be intense. The good news from the other aspects of the economy does not unfortunately compensate for the bad unemployment figures and the figures for manufacturing industry, which continue to show few signs of improvement.

There is a danger that if we were to delay the announcement of otherwise admirable measures until the Budget, they might arrive too late. The Government might have come to be regarded as helpless in the face of rising unemployment. We are all well aware of how quickly apparently unchallengeable leads can slip away if the essential authority is lost. There comes a point when genuine steadfastness is all too easily mistaken for immobility and lack of ideas. That mistaken perception undermined the Barre economic programme; and perhaps the Schmidt coalition too. We may therefore judge it desirable to respond to these pressures in giving some advance indication of our plans.

On the other hand, if the resumption of economic growth now forecast in several of the City bulletins begins to show up in the more lagging indices such as unemployment, then there is considerable virtue in sitting still and not fidgeting.

Either way, if there is to be a single announcement of the public expenditure decisions (together with the other announcements and forecasts which the Treasury is obliged to make at this time) there is much to be said for attempting to make these low-key by giving them in written answers. However, there is bound to be a good deal of interest in the public expenditure decisions - scare stories about massive cuts and so on - and we may scotch this if we at the same time make a statement about our proposals to deal with unemployment in its broadest aspect.

And that would surely mean including some announcement about our intention to raise income tax thresholds in the Budget. On its own, a declaration that we plan to introduce Workfare or a cap on benefits might well seem harsh and negative.

Whatever action we propose must:

- (a) maintain the line of the Medium-Term Financial Strategy and enable us to meet our PSBR and monetary targets;
- (b) correspond with Conservative aspirations to a low-tax society, without being in any sense reflationary;
- (c) be generally seen to be fair;
- (d) be generally seen to have a direct effect upon unemployment; and
- (e) improve the confidence of manufacturing industry.

#### A Possible Programme for Action

1. By far the most important measure must be to raise tax thresholds in the next Budget. It is the post-War impact of income tax upon the poorer working classes that has given work a bad name. The psychological effect of the poverty trap spreads far beyond those families who actually have marginal tax rates of approaching 100% or more.

Whatever the virtues of the rival measures suggested by the CBI - such as the abolition of NIS and of the investment income surcharge - they cannot affect attitudes to work and the business climate nearly so directly as income tax cuts. Tax cuts were, after all, one of this Government's central commitments. Except for the upper income groups, we have not yet fulfilled that commitment.

Professor Minford suggests raising thresholds by 25% in the coming year at a cost of £2.6 billion, with a further 15% in the year after, at a further cost of £1.7 billion.

The Chancellor could not make an unqualified commitment now, but he could say something like: "If wage settlements in the public sector are modest this winter, my firm intention is to raise the tax thresholds by 20% in the next Budget". This would leave room to do better if we can when the time comes.

The tradition is for the Chancellor to keep his pleasant surprises up his sleeve and, in particular, to treat income tax cuts as residuals. As a result, they often get lost in the pre-Budget lobbying. We believe that it is preferable to structure the next Budget (the last one to affect incomes before the Election) around the tax cuts we are seeking, and to say so now, if we are saying anything at all. This would have several advantages:

- (a) it would give more time for the tax cuts to soak into the public consciousness;
- (b) it would offer industry and commerce an assurance that real disposable incomes, and hence consumer demand, will be allowed to grow steadily, and so should encourage restocking;
- (c) we shall never move towards a low-tax society unless we take tax cuts as the prime desideratum;
- (d) without some positive and attractive element, any autumn statement on remedies for unemployment would be liable to depress business confidence rather than raise it, and would certainly yield few political benefits.

2. The poorest families still are often found among those where the husband is in low-paid work. FIS is better than nothing, but it is

bedevilled by poor take-up. The CPRS mention the Canadian system of a refundable second tier to child benefit. This would improve on FIS for the employed and replace dependant allowances for the unemployed, thus smoothing out the "benefit gap" between employed and unemployed parents (which is largely caused by FIS and rent and rate rebates being less generous than their unemployment benefit counterparts). This would be far more cost-effective than loading all the increase onto a flat-rate child benefit. The clawback could come through the tax system, but the taper would begin well above present poverty trap levels. The cash would be payable through the Post Office at the same time as child benefit. There would be an extra cost involved in shifting the taper up the income scale, but the outcome would be far more cost-effective than simply increasing child benefit for all. And unemployed men would know that getting a job would not endanger any part of their child support from the state.

Whatever we suggest must not hurt the children of the unemployed. After all, men with families form only a tiny percentage of the unemployed; it is they who are most likely to be in the unemployment trap, but all the evidence suggests that they are the most eager work-seekers.

We suggest that the DHSS:

- (a) urgently investigates the possibility of a refundable second-tier child benefit; and
- (b) as a fallback, produces improvements to FIS which would smooth the differences between child support for the employed and child support for the unemployed.

3. Many continental countries already have a two-thirds cap on unemployment benefits. Such a cap is accepted in those countries as sensible.

But could we justify introducing a 70% cap in the depth of the world recession, as Professor Minford suggests?

We should not only be accused of blaming the unemployed and punishing them for that recession - for which we have previously blamed external

factors. It would also be pointed out that social security benefits have fallen as a percentage of income-in-work during the period (1965-82) in which unemployment has risen. This fall may conceal an increased dispersion of replacement ratios - so that some unemployed people do have much less incentive to do low-paid work than they did 20 years ago. All the same, the difficulties of justifying in equity such dramatic alteration in the benefit arrangements at this stage are considerable.

The same odium does not attach to a 90% cap. It is contrary to equity that a man should receive more out of work than in work. And Britain always had a wage-stop until 1975. A 90% cap would be based on past actual earnings instead of the administratively costly and less reliable process of estimating future earnings. The cap also has the consequent advantage of not being indexed, since it relates to the past, not the future. It effectively applies a downward squeeze to maximum real benefit over the years, thus quietly accelerating the reduction of unemployment. But at the outset, the 90% cap might be regarded as presenting a minimum incentive to seek work. And it would therefore conform to popular notions of fairness. The psychological incentive effect might be considerable.

And now would be the time to do it, when social security benefits are to be raised 4% above the likely inflation rate. We suggest that the DHSS prepares a scheme for a 90% cap on benefits.

#### WORKFARE

4. We all agree that some kind of Workfare scheme would be desirable to bring hope and purpose to the long-term unemployed. As Professor Minford points out, such a scheme depends on establishing a Job Pool. He suggests that young workers should be expected to accept a job out of that Pool after 3 months; older workers after 6 months. We believe that, as a start, it would be best to restrict the scheme to 16-21 year olds, because <sup>of</sup> the difficulty of filling a Pool which would provide work for all at short notice.

But what is really needed is the administrative will to set up the Job Pool. The Government would have actively to enlist the support of every Church and voluntary body as well as of every local authority. The political difficulty would be to secure the support for a scheme which includes the denial of benefit to non-participants.

This difficulty is lessened if we restrict the scheme to the young who, in some countries, would not be entitled to unemployment benefit in any circumstances and who, since they mostly live at home, could not be said to be "compelled" by poverty to accept work.

The unhappy experience of the training allowance strongly suggests that we can expect little or no co-operation from the TUC element on the Manpower Services Commission and that the CBI element will meekly tag along behind the TUC. Yet for Workfare to have any chance of getting off the ground, it must have a Director - and a corps of local "pool managers" - with full powers to bring every available job - full-time or part-time, paid or voluntary - into the pool.

Either David Young must be freed of his TUC-CBI shackles.

Or Norman Tebbit will have to run it directly through the existing machinery of the job centres which might need to be reunited with the DHSS offices.

We suggest that you discuss this further with Mr Young and Mr Tebbit.

5. We might also consider a capital spending programme of essential labour-intensive public works - by-passes, road repairs and sewers, perhaps supplemented by time-limited tax reliefs on house repairs. Unemployment in the construction and civil engineering industries is particularly bad. It is no fault of these industries that their customers tend to be in the public sector and so have had their programmes pre-empted by current spending. As the CPRS point out, it is usually possible, eg under the 1973 Water Act, to earmark funds for such purposes.
6. These proposals could be presented together alongside the public expenditure decisions in the autumn to counter the allegations that we are doing nothing about unemployment and nothing to "get the economy moving".

Of course, these proposals could be put forward only if they could be accommodated within the Medium-Term Financial Strategy. At the moment, there is good reason to believe that they could be. But it would be important that any announcement would make it crystal clear that there is to be no weakening in the campaign to defeat inflation.

Or, if it is felt that on balance such a mixture of proposals does not offer sufficient political advantages to outweigh the disadvantages of public announcement, the relevant departments could quietly continue with preparatory work. Some of the proposals would certainly be easier to introduce at a time when unemployment had begun to fall again and jobs were generally perceived as being more plentiful.

But, even if we decide not to announce the reforms of social security until they are worked out in detail, there is still a strong case for the Chancellor to commit himself on thresholds before the winter.

7. The many other useful detailed proposals in both reports could be entrusted to the relevant departments, with both the Policy Unit and the CPRS making sure that the more promising ones do not get lost. The more important ones - such as further action on trade union immunities - are already being considered.

Neither report spends much time on some of the longer term questions which need examining; the impact of the new technology on employment, particularly on clerical jobs, and the possible future shapes of the labour force and of the working week. We hope to offer some suggestions on these topics as soon as we can.

We suggest that the major steps we have outlined here might be discussed by a small group of those Ministers most directly concerned: Sir Geoffrey Howe, Mr. Tebbit and Mr. Fowler, augmented by Mr. Whitelaw.

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