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From the Private Secretary

18 October 1982

SECRET AND PERSONAL

In the Prime Minister's discussion last Thursday evening with the Home Secretary, the Chancellor of the Exchequer and other Ministers, she referred to the Review which, during the discussion of the CPRS report on unemployment on 13 September, she had asked the Minister of State, Treasury (Mr. Wakeman), in consultation with the Parliamentary Under Secretary of State, Department of Industry (Mr. MacGregor), to carry out. This review was principally aimed at reviewing the rules governing the business start-up scheme to eliminate unnecessary restrictions, in particular those caused by the tax regime. During the meeting on Thursday the Prime Minister indicated that she would also wish the other measures listed under F, in the CPRS checklist attached to Mr. Bailey's minute to me of 21 September, to be given consideration by the Chancellor.

The Prime Minister would be grateful if the Chancellor would bring forward the results of Mr. Wakeham's review in parallel with the other work commissioned at Thursday's meeting - that is as soon as the Chancellor judges desirable, but in any event by end November.

I am sending a copy of this letter to Jonathan Spencer (Department of Industry) I would be grateful if you and he could show this letter (together with the papers referred to in it) only to those specifically authorised by your Ministers to see them.

M. C. SCHOLAR

John Kerr, Esq.,
HM Treasury.

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From the Private Secretary

MR. SPARROW

The Prime Minister has now considered Mr. Bailey's minute to me of 21 September, and the check-list attached thereto.

The Prime Minister has asked me to thank you and the other members of the CPRS concerned for all the work that went into this report. A number of discussions have, as you know, taken place about the conclusions of the report; and follow-up work has now been commissioned in the Departments concerned.

M. C. SCHOLAR

18 October, 1982

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To: Mr Scholar

21 September 1982

From: A M Bailey

Unemployment

As requested at the Prime Minister's meeting on 13 September, I attach a checklist of measures proposed in our unemployment report. This also notes related proposals made in the Minford/Smith study, and in the discussion itself.

2. The CPRS is beginning work on the benefit remit given at the meeting. But it would clearly be helpful to be able to discuss the detailed proposals (at A in the list) with DHSS and other Departments concerned. Some of these come from the Minford/Smith report, and the factual base of that report is obviously relevant to our study. So far copies of the report have only gone to a restricted list of Private Offices, and the Prime Minister may wish to consider authorising us to discuss it at least with a limited number of selected individuals in Departments.

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.

4. I am sending a copy of this minute to Mr Gregson (Cabinet Office).

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Unemployment: Issues for discussion and decision

This note sets out what in the CPRS's view are the main points for Ministers to discuss and decide on our report on unemployment. It also includes the main points from the report on unemployment commissioned by Professor Walters ("the No.10 report"), and from a discussion with the Prime Minister on 13 September. There are references to paragraph numbers in the unemployment report (or page numbers in the No.10 report), and suggestions as to which Department should take the lead in further work.

A. Unemployment Benefits

(Note: The Prime Minister has asked the CPRS to prepare fuller proposals on benefit reform designed to improve work incentives for young people in particular; this remit will need assistance from Departments, notably DHSS.)

- (i) Require supplementary benefit recipients after 3 months to accept any safe work which gives them an income, with in-work benefits, no worse than benefit income when unemployed (7.16, and No.10 report, p.73).
- (ii) Require SB recipients to show evidence of active job search (13/9 discussion).
- (iii) Collect a larger pool of vacancies and other community work to test job availability (No.10 report, p.73).
- (iv) Cap individuals' benefit entitlement at 90% of previous net income in work (7.13 - No.10 report, pp 63-64, says 70%).
- (v) Apply to long-term unemployed family men and wives the same disregards of part-time earnings for benefit as for single parents.

B. In-work Benefits

- (i) In the short term, market FIS better (7.10), extend it to part-timers and provide a more gradual taper (7.19(c), DHSS). Or pay more generous FIS based on net income to offset abolition of means-tested benefits in kind (free school meals, prescriptions etc) as transitional measures to an eventual Negative Income Tax (No.10 report, pp 81-82).
- (ii) Devise a replacement for FIS to be included in the wage packet (7.10, DHSS/IR).

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(iii) Increase child benefit by £2.15p per child (No.10 report, p 83).

C. Employment Measures

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

(ii) 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).

(iii) 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 (9.25(e), DE).

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

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

D. Flexible Wages (see also H. Strategy)

(i) Commit the Government to abolish all wages councils in 1985 (6.3, and No.10 report, pp 125-131; DE).

(ii) Mount a campaign to correct public misapprehensions about the link between pay and employment (6.4, DE/Lord President's Office - see also J. Presentation).

(iii) Continue step-by-step approach on union legislation with secret ballots as next step (5.12-13); or end union immunities and closed shop agreements, set up a Labour Monopolies Commission with power to bring actions under common law (No.10 report, pp 107-124).

E. Encourage more jobs

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

(a) release firms employing less than say 50 workers from statutory obligations to make redundancy payments;

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- (b) make unfair dismissal protection optional (say for new businesses or for businesses with fewer than 50 employees);
 - (c) raise the ceiling (5 employees) below which firms may gain exemption from duty to reinstate women after maternity leave, and make exemption unconditional.
- (ii) Commission a 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, DE with other Departments).

F. Fiscal Measures

- (i) Review the rules governing the Business Start-up Scheme to eliminate unnecessary restrictions (Try/DI/IR).
- (ii) 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, Try/DHSS).
- (iii) Institute a regional employment subsidy using EC Regional Fund (No.10 report, p 135).
- (iv) Increase tax thresholds by 40% over 2 years (No.10 report, p 82).
- (v) 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, Try);
 - examine in particular whether labour-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, Try).

G. Education/Training

- (i) 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 full potential through vocational rather than academic education (5.5, DES).

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- (ii) 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).

H. Strategy

In addition to specific remedies, the CPRS report sets out a general strategy for reducing unemployment (chapter 4). Among the main points are:-

- (i) An improved supply performance (eg on innovation, entrepreneurship, management) is an essential component of any solution for unemployment.
- (ii) Labour market flexibility (including market-clearing wages) is equally a precondition for curing unemployment (emphasised in No.10 report, chapter 1).
- (iii) Among the wide range of obstacles to greater labour market flexibility, one 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 what we call the "primary" sector). Hence the need to break down large organisations in public and private sectors, 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. For this purpose 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). Also policies towards unions should aim at (a) preventing unions from obstructing contracting out etc and hamstringing (directly or indirectly) the "secondary" sector, and (b) encouraging them to play a constructive role in the "primary" sector where they belong; (a) calls into question among other things the TUC's role on the MSC (pp 51-53).

J. Presentation

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

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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, it will be extremely difficult to gain consent for the strategy. This needs concentrated attention on how the message might be built upon and disseminated, eg in the Government's response to the House of Lords Select Committee Report.

K. Other

The CPRS report also makes proposals in the following policy areas:-

Employee involvement (p 53), flexible working hours (pp 86-87), alleviating unemployment (pp 99-100)	DE
Labour mobility and housing (p 55, and No.10 report, p 134)	DOE
Competition policy (pp 56, 57)	D/Trade
Small firms (p 61), innovation (pp 62-63)	DI
Counter-cyclical measures (p 112)	Try

Manpower, Special Employment Measures

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