

(A) *Handwritten initials*

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

UNEMPLOYMENT

with mcs
Following your meeting on 14 October I was asked to consider a list of possible fiscal measures which could help to relieve unemployment, and to let you have a report.

(i) Business Start-Up Scheme

As I reported in my minute of 26 November, I am attracted to the idea of extending the Business Start-Up Scheme from start-ups to existing companies. We are now working on the details of a scheme to this end. If we do decide to implement it in the 1983 Budget the main criticisms of the present scheme should disappear.

(ii) Capital subsidies/labour taxes

I agree that there is a strong case for reducing these, and we have made progress in cutting NI surcharge and holding back employers' NI contributions; the reviews of corporate taxation, and of regional economic policy, will give us opportunities to consider further changes
..... (see the attached note by officials).

(iii) Regional employment subsidy

Some switch of regional subsidy to give more emphasis to employment will be considered as part of the review of regional policy. But the old Regional Employment Premium, introduced in 1967 and finally withdrawn in 1976, was not very cost-effective - it involved high deadweight, was costly to run, and had limited influence on location decisions; there is doubt moreover about whether Community competition rules would now permit a



continuing subsidy of this kind.

(iv) Tax thresholds

Of course I should like to raise thresholds, and the scope for this next year will be a crucial Budget decision.

(v) Public expenditure planning/control

I do not believe we should cease our efforts to restrain public service numbers as distinct from spending, and we shall shortly be considering Civil Service manpower targets after 1984. But in some areas there may be scope for looking at employment effects along with other spending criteria (further discussed in the attached note).

2. I have seen copies of the parallel minutes to you from the Secretaries of State for Employment and Social Services. There are of course links between the two sets of proposals (e.g. job release/early retirement), and with the idea of labour-intensive construction contracts at (v)(b) below. What they have in common, as both minutes acknowledge, is that in order to achieve some first-round reduction in registered unemployment most of the proposals would involve spending a great deal of money, for which there is no room in existing programmes.

3. I am not sure how you propose to handle these progress-reports, but like Norman Tebbit I imagine you may wish to have another meeting to decide on further action. In advance of that, I must make the point that there is no specific provision for any of these measures in the public expenditure review which we have just concluded, and that I assume no decision will be taken on any of these options before their costs have been thoroughly examined and the means for financing them have been identified, taking account of the agreed expenditure totals. On this basis I hope we can meet to decide on which options we want further work done, for example before the Budget; two of the proposals ((iii) and (iv) in Norman Fowler's

CONFIDENTIAL



list) are of course already being considered in MISC 88.

4. I am sending copies of this minute to the Secretaries of State for Employment, Social Services and Industry.

G.H.

13 December 1982

CONFIDENTIAL

F. FISCAL MEASURES: Notes by officials on specific proposals

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

It is right that the Government should seek to correct the present bias of the fiscal system towards capital-intensive and against labour-intensive investment. Some progress has already been made, and more may be possible, though there are bound to be problems in removing existing grants and tax reliefs. Specifically

- the reduction of National Insurance surcharge, and the decision to hold back employers' National Insurance contributions, are recent steps the Government has taken to reduce the burden of taxes on employment;
 - the review of regional economic policy is examining the balance of regional assistance as between capital and labour, and will report to Ministers with options for change by the end of the year;
 - the structure of corporate taxation, including its favourable treatment of capital investment in manufacturing industry, is to be reviewed in the light of the response to the Green Paper published in January 1982.
- (v) Revise public expenditure planning and control procedures to take more account of employment objectives. // This could apply to the Survey process (which will not now affect expenditure before 1984-85) or the handling of bids between Surveys (with more immediate effect in relation to the £1.5 bn Contingency Reserve).

/(a)

CONFIDENTIAL

- (a) Document the employment impact of spending options.

To use this as one criterion in deciding priorities between spending options is sensible in principle, and was tried out in the 1981 Survey. But in practice it is not easy to produce reliable quantified information on employment impact. And given the overriding aim over the next four years to reduce public expenditure as a proportion of GDP, spending reviews will necessarily be concerned with securing cuts wherever possible and reducing bids to an absolute minimum, so that there is unlikely to be much scope for 'optional' spending.

- (b) Document real outputs of special employment measures so that Ministers can decide the 'best buys'; examine in particular whether labour-intensive construction contracts could be a better buy than community work.

Clearly the employment and other benefits of rival employment measures (such as those in the recent minute from the Secretary of State for Employment) need to be carefully examined, to consider not only their potential register effects but also any real effects on output and industrial performance (as well as whether room can be found for them within the agreed public expenditure programmes). But some uncertainty about actual effects will remain: special measures such as labour-intensive construction contracts are more difficult to control as to employment and timing. In addition it is difficult to set these in hand without giving the wrong signals to local authorities and other public sector bodies about the Government's determination to control public expenditure. If Ministers wanted to stimulate more public sector capital spending of a labour intensive kind, room would first have to be found by some shift of priorities within agreed public expenditure programmes. Then relevant spending authorities (e.g. regional water authorities, local authorities, perhaps NHS and PSA) would need to be invited to put forward additional projects for labour-intensive investment, with estimates of jobs created. If these applications were approved, authorities' capital allocations might need to be adjusted, and some cost-per-job subsidy might also be needed as an incentive to authorities to co-operate. An agency would be needed to run the scheme, and MSC would be the

/obvious

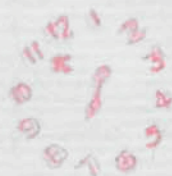
CONFIDENTIAL

obvious choice (it already deals with local authorities on some of its existing schemes). But Ministers would first need to decide whether they wished to loosen restraints on capital spending and divert resources into a "public works" scheme of this kind.

- (c) Introduce targets for annual running costs, rather than manpower targets, to reduce bureaucracy.

In this area the objective of promoting employment has to be weighed against other Government objectives - to control public-sector use of resources, to maximise efficiency and promote privatisation and contracting out. It could be argued that within a given cost limit on total resources, it is more efficient for managers to make their own choices as between employing people and spending money in other ways. However experience has shown the value of manpower targets as a means of promoting efficiency and holding down expenditure. This is one of the main reasons why we have found it essential to move towards a system of manpower control in the National Health Service. The Chief Secretary is inviting colleagues to establish new manpower targets in the Civil Service for the period after 1984.

74 DEC 1982



CONFIDENTIAL