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Prime Minister (2)

Dec 21/12

(for Thursday's

meeting)

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PRIME MINISTER

Unemployment Measures

BACKGROUND

You had a meeting on 14 October with a small group of Ministers to consider a check list of possible measures to deal with unemployment, drawn largely from two overlapping reports, the CPRS Report on Unemployment of September 1982, and the Minford/Smith Report commissioned by the No 10 Policy Unit. Some of the items in the check list were selected for further study and assigned to the Chancellor of the Exchequer and the Secretaries of State for Social Services and Employment as appropriate. Your meeting is to discuss their replies (the Chancellor of the Exchequer's minute of 13 December; undated minutes from the Secretaries of State for Social Services and Employment received at the beginning of December); and a further minute of 20 December from the Secretary of State for Employment on employment protection legislation.

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GENERAL

2. The purpose of the meeting is to continue the process of deciding which measures should be considered further and which should be ruled out. In going through the list you will want to have the following general consideration in mind. The replies and the reports from which they arose in the first place examine the scope for reducing unemployment in a whole range of different ways, for example:

- i. by improving the economics of employing labour (eg by lowering taxes and increasing benefits, such as Child Benefit, for those in work, and by lowering labour taxes, such as the National Insurance Surcharge, borne by employers);



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- ii. by creating new jobs through public expenditure (eg directly by labour intensive public sector works contracts, or indirectly by incentives for small businesses);
- iii. by encouraging full-time or part-time withdrawal from the labour force (eg by financial incentives for early retirement, for job splitting etc);
- iv. by ensuring that the structure and administration of benefits provide an adequate incentive to work.

With the possible exception of iv. (and that may involve extra public service manpower costs) all the various approaches involve either a reduction in revenue or increased expenditure. The more resources the Government makes available for one way of tackling the problem, the fewer resources are available for other ways of doing so. Political considerations apart, it is therefore a matter of judging how the options compare with each other in cost effectiveness. The Chancellor has reserved the Treasury's position on any items involving additional public expenditure. Some of the major items, such as action on tax thresholds, are matters on which the Chancellor will want to defer final decisions until his Budget recommendations.

3. The remainder of this brief consists of an annotated agenda which follows the order of items in the three Ministerial replies. The order in which the three replies are taken is not important, but you may prefer to take the Chancellor's first, since it discusses some of the major items and may help to set the budgetary context for the less central items.

CHANCELLOR OF THE EXCHEQUER'S MINUTE

5. i. Business Start-Up Scheme
The Treasury is working on details of an improved and extended scheme.

The Group may merely wish to take note of the work in hand and await final decisions at the time of the Budget.



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ii. Capital subsidies/labour taxes

More progress may be possible on three fronts: in respect of the National Insurance Surcharge (? further action in the Budget); as a result of the regional policy review (NB changes cannot be made until the next Parliament); and as a result of the review of the structure of corporate taxation (the time scale for decisions on this is not clear).

The Group may be content to await any Budget decisions about the National Insurance Surcharge, and the outcome of the regional policy and corporate taxation reviews.

iii. Regional employment subsidy

This will be covered in the regional policy review but the prima facie objections seem strong.

The Group may wish either to rule out this option now or to await the regional policy review.

iv. Tax thresholds

The Group will want to await the Chancellor's Budget ~~recommendations~~.

v. Public expenditure planning/control

The Cabinet decided on 16 September how to handle Civil Service manpower after 1984. The remaining issues are concerned with improving the appraisal of employment measures, ie documenting the employment impact of spending options, and comparing the real output benefits of special employment measures vis a vis labour intensive construction contracts. The Chancellor agrees that there is some scope for this.

The Group may wish to encourage the Chancellor to see what more can usefully be done to improve the evaluation of public expenditure options in this way.

SECRETARY OF STATE FOR EMPLOYMENT'S MINUTE

6. i. Enterprise Allowance

The question is whether to develop the existing pilot schemes into a national



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scheme from 1 July 1983. The full year cost would be £145 million gross (£65 million net); 22,000 would be removed from the register each year at a cost of about £3,000 per job. It is however suggested that the extra cost might be justified by the benefits from generating new small businesses.

The Group may wish either to rule this option out now as too expensive or to defer a decision until late 1983 when the full evaluation of the pilot schemes will become available.

ii. Full Time Job Release Scheme

The question is whether the Scheme should be extended after 31 March 1984 and, if so, whether the age of eligibility should revert from 62 to 64, stay at 62, or be reduced from 62 to 60. The net cost per person off the register is £1,500. If the Scheme were to be closed the costs would fall to nil by 1987-88; continuation with eligibility at 62 would cost about £350 million a year; reduction to age 60 would cost about £1 billion by 1987-88. In principle it seems desirable to encourage early retirement when unemployment is high, but the cost is considerable.

The Group may conclude that proposals about the possible extension of the Scheme beyond 31 March 1984 should be considered as additional bids in the 1983 Public Expenditure Survey.

iii. Partial Retirement Option

The question is whether to introduce a part-time option into the full-time Job Release Scheme discussed in ii. above with either the same or a different age of eligibility. It would cost nothing because only half the Job Release allowance would be paid while the savings in benefit from employing someone from the unemployed register would remain much the same and because some probable full-time applicants would transfer to the part-time Scheme. In principle this seems desirable since it would encourage early part-time retirement at a time of high unemployment. The only reservation is that the introduction of a



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part-time option might reduce the number of full-time jobs made available. The relationship with the existing Job Splitting Scheme would need to be worked out in detail.

The Group may wish this proposal to be studied further with a view to possible introduction from March 1984, probably with a lower age of eligibility than under the full-time Scheme.

iv. Temporary Short Time Working Compensation

The question is whether to extend the present Scheme beyond 31 March 1984, and, if so, whether temporarily or (as the CBI have requested) permanently. The net cost is low (perhaps £140 per person) because the Government payment to the employer is broadly what would otherwise be paid to the employee in benefit. It is however doubtful whether on a permanent basis employers should be subsidised for having workers on short time.

The Group may wish to keep open the possibility of a temporary extension of the Scheme beyond 31 March 1984. Since the cost of a one-year extension would be small, the Chancellor might be willing to take and announce a decision in advance of the 1983 Public Expenditure Survey if this was thought to be politically desirable.

v. Workfare

Workfare on the US model differs from the existing Community Programme in two important respects: it would be compulsory and the sum paid to the individual would take the form of benefits rather than wages. The question is whether, although some problems have been identified, Ministers want to have a detailed scheme prepared and, if so, what should be the target groups (? young unemployed only) and whether the new scheme should run alongside the Community Programme (which is guaranteed for two years) or should be a successor to it.

Unless the Group wishes to rule out the proposal, it will need to ask for further work to be done, preferably with some guidance about target groups and timing of possible implementation.



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SECRETARY OF STATE FOR EMPLOYMENT'S FURTHER MINUTE OF 20 DECEMBER

7. i. Unfair dismissal protection (including the Chancellor's proposals)

The question is how far small firms should be exempted from the unfair dismissal provisions, at least during the early years of trading. At present an employee has to be employed for one year to get the protection but the period is two years where the employer has 20 or less employees.

Mr Tebbit proposes that very small employers (5 or under) should be exempted altogether, and that new employers with 20 or under employees should be exempted for the first five years of trading. The latter change would require primary legislation. In addition he has set in hand a study of improving the industrial tribunal system.

The Group will wish to decide whether to accept Mr Tebbit's proposals, or to enlarge the exemptions further or not to pursue the exemption route, pending results of the study of improving the industrial tribunal system.

ii. Redundancy payments

The question is whether small firms should be exempted from the obligation to pay redundancy payments, for which an employee qualifies after two years but which are re-imbursed as to 41 per cent from the Fund.

Mr Tebbit argues against a change on the grounds that the requirement does not inhibit recruitment significantly and that it would be difficult to deprive employees of small firms of these rights.

If the Group agrees, the proposal need not be considered further.

iii. Maternity provision

The question is whether the current exemption from the obligation to re-instate after maternity leave should be raised from five employees or less to a higher figure (say 20 or less).

Mr Tebbit recommends against a change on grounds that it would bring little benefit and would be seen as anti-feminist.

If the Group agrees, the proposal need not be considered further.



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SECRETARY OF STATE FOR SOCIAL SERVICES' MINUTE

8. i. Supplementary benefit: requirement to accept work after 3 months if pay and in-work benefits would be not less than income while unemployed

ii. Supplementary benefit: requirement to show evidence of active job search

Mr Fowler recommends against these proposals. On i. he says that claimants may even now be required to take jobs at less than the benefit rate. Comparison with the applicant's benefit level rather than the rate for the job would be complicated. On ii. he says that such evidence could easily be obtained and would be administratively costly to check. He proposes instead developing the existing work of unemployment review officers, selectively directed to the small category of cases (young unemployed without family commitments) where there may be some tendency to take benefits rather than seek work.

Depending on whether they are persuaded by Mr Fowler's arguments, the Group will wish either to rule out these proposals or to ask for further study.

iii. Supplementary benefit for long-term unemployed: increased disregard of part-time earnings

iv. Long-term rate of supplementary benefit: extension of early retirement concession below 60

These proposals are in part related to the proposals in Mr Tebbit's paper about encouraging full-time or part-time early retirement. The problem about iii. is that it would actually enable people with part-time earnings to stay on the unemployment register. The Government is however trying to take people off the unemployment register by making new part-time jobs available for them. The problem about iv. is that although it would, as it were, re-classify the people concerned as retired rather than unemployed, it may be questionable whether it would create genuine new jobs by encouraging early retirement at under 60; and, whether, if it did so, there is an economic justification for removing 50-59 year olds



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from the work force. Mr Tebbit's proposals are however concerned with the 60-64 year olds.

Although Mr Fowler refers to the MISC 88 discussions as possibly providing funds for these changes, MISC 88 has now decided to make recommendations to the Cabinet which effectively use up the room for manoeuvre by reducing the uprating adjustment from $2\frac{1}{2}$ per cent to 2 per cent and approving restoration of the 5 per cent abatement of unemployment benefit.

The Group may wish to rule out these proposals.

v. Review of Family Income Supplement

vi. Changes in child benefits

These matters are still being studied.

The Group may wish to await the results of the further studies.

PL

P L GREGSON

21 December 1982