

25 February 1983

Policy Unit

PRIME MINISTER

UNEMPLOYMENT ISSUES

At Wednesday's meeting, we shall return to the issues raised on 23 December. I think it is important to concentrate our efforts on the most promising proposals. (I follow the numbers in Peter Gregson's note.)

1. Matters requiring early decision (pre-Budget)

i. Temporary Short-Time Working Compensation Scheme. There is a case for continuing it for a further year, so long as unemployment continues to rise, since the cost is modest.

ii. Enterprise Allowance Scheme. The figures of £3,000 per job are somewhat misleading (well, they misled me). They assume that no enterprise thus funded lasts beyond the first year. If you take the modest assumption that only 1 in 4 survives and enjoys an average life of 3 years, then the figure comes down to under £700 per job. We believe that the scheme should be started up nationally.

iii. Measures relating to the over-60s. There are three proposals: 2

(a) removal of the requirement for unemployed men over 60 to register purely to secure contributory credits;

(b) awarding the long-term rate of supplementary benefit to unemployed men over 60 without a year's wait;

(c) Mr Tebbit's job release proposals.

They are all defensible.

But the real goal must surely be that outlined by Norman Tebbit:

"a coherent retirement package for the employed and unemployed over age 60". To adapt our line on the YTS: "In future, unemployment will not be an option for people over 60 who have not yet reached retiring age. Either you will be in full-time work, or in part-time work with part-time job release, or you will be entitled to Interim Retirement Pension/Benefit - either because you cannot find work or because you have given up your job to an unemployed person".

To offer the dignity of interim retirement status would be worthwhile. Even if we have not yet agreed the details of a coherent package of

this sort, we could at least hold out the prospect in the Budget without prejudging PES. The difference between an interim and a full retirement pension would, of course, be that the interim pension would cease to be payable if the pensioner found work again.

2. Post-Budget Issues

- i. The Workfare proposal could not realistically be introduced until the Community Programme was fully under way. As Norman Tebbit suggests, it would have to be restricted to the 18-24 age group to be sure of finding enough jobs. Even then, it would need considerable preparation. We agree that officials should work the scheme up into final practical form to be ready if it is decided to go ahead after the Community Programme has run its guaranteed two years.
- ii. The rules about suitable employment. The DHSS makes out a bizarre case: yes, they say, "if we were starting with a clean sheet, we would not adopt such a rule. But since we do have these rules, any change would require contentious primary legislation which would be seen as "an attack on the unemployed". But would this be the popular reaction? On the whole, any tightening of rules is popularly regarded as a good thing; and it could easily be included in an Employment or Social Security Bill which contained other undeniably attractive measures. There is absolutely no reason in logic why benefit should be paid to someone simply because he is unable to gain a job at trade union rates.

The difficulty is to produce an alternative criterion of "suitability" which does not imply some kind of national minimum wage. As the DHSS indicates, the most promising answer lies along the American definition of work as unsuitable if the wages offered are "substantially less favourable to the individual than those prevailing for similar work in the locality" - ie any kind of work must be considered, but only if the wages offered are not too far below the local going rate for the job.

But the real disagreement remains between the DHSS claim that "vacancies of all kinds are filled quickly"; and the belief of many other people that low-paid vacancies are not filled - or not even advertised, because employers know from experience that they will get no replies. We all have anecdotal evidence of this sort or read it in the newspapers; yet officially, it does not happen. The argument

will progress no further until we have some kind of independent enquiry set up.

We recommend:

- (i) // the DHSS should pursue the possibility of an American-style criterion of suitability;
- (ii) the MSC should commission an independent survey of the effect of suitability rules on the availability and take-up of low-paid jobs;
- (iii) the DHSS should carry out its own suggestion of an experimental exercise in interviewing under-25s who have been out of work six months and seeking out lower-paid vacancies for them.

iii. Labour Market information and analysis. Mr Tebbit's suggested arrangements will greatly improve the quality of our information, and will prevent us from "losing" hundreds of thousands of workers again. They will also make it easier for us to inculcate a positive view about future job prospects, as the Americans do.

The Chancellor is content with the proposals, although he wants the modest extra costs to be met out of Norman's existing Budget. This matter could perhaps be settled bilaterally between them.

iv. Child Benefit and Family Income Supplement. The immediate priority is to make sure that we do enough for child support in the Budget. I gather the Chancellor has this very much in mind. The nearer we can get child benefit back to the real levels of May 1979, the better.

The longer-term question is much cloudier. Treasury Ministers do not wish to re-inject child support back into the tax system. Their goal is to strip the system of all allowances, except the personal allowance, in preparation for a long-term switch to ITTA. There are some in the Inland Revenue and the DHSS who do see some merit in a Child Tax Allowance or Family Responsibility Allowance. But the prevailing view favours the status quo. Even the more modest (though still expensive) option of improving the FIS taper runs into considerable opposition from the Chancellor.

You have, I think, two possible choices:

1. To pursue the possibility of tax allowances for family support despite Treasury opposition.

2. To accept Child Benefit as the prime form of child support, but to improve its presentation.

When the Government surrendered in 1972 and paid Child Benefit through the Post Office and not the pay packet, the Government also tamely accepted the definition of it as a "benefit". Yet it was a merger of two things, neither of which had ever been either a National Insurance benefit or a means-tested form of assistance to the poor. We intended it to be a tax credit. Why don't we call it a Child Credit - and mention it on the pay slip (perhaps even offering the option of payment with the pay packet)?

Whichever line you pursue, I suggest that soon after the Budget, you will need a major meeting with Treasury Ministers on the future of the tax system. At present, their long-term ideas do not seem to be fully co-ordinated with yours. And if we are to have a coherent tax policy for the next Parliament, we shall need to agree on some general guidelines well in advance.

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