

Prime Minister

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cc Mr. Mount

MR. SCHOLAR

PETER GREGSON'S MEMORANDUM ON UNEMPLOYMENT STRATEGY

For rebuttal
The main omission is that he discusses taxation only in so far as it can "stimulate the creation and expansion of new enterprises". But our main purpose must surely be to reduce taxes on labour and at the same time to reduce the subsidies on investment. At present investment in fixed assets in the regions is virtually free. The tax remissions cover the cost. Whereas with one or two exceptions, labour is not subsidised at all. On the contrary, it is quite heavily taxed. Consequently we have at present an enormous investment in labour-saving capital.

The current fashionable view that investment is necessary for more jobs to be created is at least questionable, if not quite nonsensical. A large amount of investment, I suspect, is of the labour-saving variety. For example, we know there is substantial investment going on in the service industries which are going into self-service stores. At the same time we operate Wages Councils to keep retail wages high and we ensure that the marginal tax rate on employment, as well as the other obligations through the Employment Protection Legislation, is indeed quite high. This makes a nonsense. I think it should have a central place in the discussion. (It is interesting that Japan, which has virtually no unemployment problem, does not subsidise capital investment as we do.)

Public expenditure
The other point that is missing is public expenditure. I have long argued that much public expenditure involves more than 100% crowding out. The most recent example I can recall is, of course, the gas gathering pipeline. But there are many others. Probably the most obvious example is in urban buses. Our subsidies to urban bus systems, combined with the various great regulatory hurdles, prevents the development of labour-intensive minibus services. Again, that is yet another aspect of subsidies to capital intensive technologies and indeed combined with the regulatory discouragement of labour intensive technologies.

ALAN WALTERS (Dictated but not seen by AAW)
28 June 1983

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