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P.01086

PRIME MINISTER

Chequers Seminar on Unemployment

You have approved an agenda for circulation to those attending the Chequers seminar (~~copy attached~~). Since the volume of paper is already very large, this brief is confined to suggestions about handling the discussion and to drawing attention to the main issues for consideration under each agenda item and sub-item.

GENERAL POINTS ON HANDLING

2. Although no introductory item has been listed on the agenda you will probably wish to open the seminar with some general remarks about its purpose and the approach you wish the participants to adopt. Suggestions about the points you might want to stress are set out below in paragraph 4.

3. You will want to form some rough idea of the time which should be allocated to each of the main sections of the agenda. Section 1 (Industrial policy) and Section 2 (Labour market) will probably each take at least 2 to 3 hours because they cover a large number of specific issues. Section 3 (Opening up the public sector to market forces) should be dealt with quickly since there is only one short paper by the Chancellor of the Exchequer and the specific issues about privatisation, exposing the public utilities to more competition, and contracting out are to be considered later. Section 4 (Education and training) might take 1 to 2 hours. You will probably wish to allow up to half an hour at the end for Section 5 (Conclusions and follow-up). This suggests that it might be best to think in terms of dividing the seminar into three sessions of about equal length - one on Section 1, one on Section 2 and the other on Sections 3, 4 and 5.

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OPENING REMARKS

4. You may wish to recall that the purpose of the seminar is primarily to consider what might be done to reduce unemployment within the lifetime of this Parliament, while not excluding measures which might have a favourable effect in the longer term. You may also wish to stress that the Government's approach to the problem of unemployment, in line with its Manifesto, is to work with rather than against market forces, ie (page 7 of the Manifesto) "by rebuilding the economy so that it produces the goods and services which people want to buy, at prices they can afford". Suggestions which involve trying to deal with unemployment by additional public expenditure, which increases the tax burden on the wealth-creating sector of the economy, or by more Government intervention must therefore be examined very critically.

5. Against this background you might therefore suggest that, as each specific proposal is considered, it should be tested (roughly - precision is not needed at this stage) against the following criteria:

- what size of effect might it be expected to have on unemployment over what timescale?
- what costs are involved (ie, not just expenditure and resource costs but political costs)?
- how far is the proposal consistent with the Government's general wish to work with rather than against the market?

ITEM 1: INDUSTRIAL POLICY

1a. Taxation affecting industry generally

6. This item is not intended to cover small firms and the self-employed which are to be dealt with under Item 1d. It covers the following main issues:

- i. the general strategic issue of how far reducing taxation should be an overriding priority of Government policy;
(see the Chancellor of the Duchy's papers 15 and 22)

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ii. whether, and if so when, National Insurance Surcharge should be abolished;

(see para 2 of the Chancellor of the Exchequer's paper 8)

iii. whether capital allowances should be reduced, as discussed in paras 2 to 8 of the Chancellor of the Exchequer's paper 8, or extended to stimulate innovation as proposed in the Secretary of State for Trade and Industry's paper 18 (para 16);

iv. whether more should be done to stimulate share ownership as proposed by the Secretary of State for Trade and Industry in his Paper 19 (para 25).

7. Various Ministers may have other specific suggestions for changes in taxation for example the Secretary of State for Trade and Industry's wish to move towards a much simpler Corporation Tax levied at a lower rate or changing the system of assessment for Corporation Tax to a flow of funds basis. You will not wish the discussion to go into too much detail. It would be sufficient to draw out for the guidance of the Chancellor of the Exchequer the balance of views on the strategic issues at i., ii., iii. and iv. above, and in particular on the priority which should be given to reducing company and personal taxation.

1b. Government assistance to industry

8. This item is intended to cover the bulk of the material in the Secretary of State for Trade and Industry's Paper 19 on "Encouraging Growth", and in the Secretary of State for Energy's Paper 20. It covers the following main issues:

i. how to cut back the burden of the loss making industries in the public sector;

ii. how to improve performance in overseas markets;

iii. how to stimulate technological innovation and growth of employment in new areas of activity;

iv. how to encourage foreign investment in the UK;

v. whether, as the Secretary of State for Energy proposes, a new 10 per cent investment grant should be introduced on investment to be undertaken before 1st April 1986;

vi. whether, as the Secretary of State for Energy proposes, wage negotiations should be linked with capital investment in certain sectors.

9. In general the Secretary of State for Trade and Industry is not proposing any radical new departures of policy on the issues at i. to iv. above. Most of his paper is concerned with explaining what is already being done and where he discusses possible new initiatives these are usually on matters of relative detail and are developments of existing policies. In relation to i. to iv. the discussion will therefore be mainly about whether the balance of the DTI's existing policies are about right - eg whether the Government is moving quickly enough to reduce the burden of the loss making industries, whether the Government is doing enough to encourage exports and inward investment, whether Government intervention to stimulate technological innovation is justified and, if so, whether it is pitched at about the right level.

10. The Secretary of State for Energy's proposals at v. and vi. are more radical. Most of the other participants in the seminar are likely to find them difficult to reconcile with the general thrust of the Government's economic policies.

1c. Regional economic policy

11. The Chancellor of the Exchequer's Paper 1 draws out the main issues arising from the second report by officials which Ministers are to consider shortly in E(A), ie:

i. should Regional Development Grants (RDGs) be made more cost-effective (by excluding replacement investment and imposing a cost-per-job ceiling) and less discriminatory (by extending eligibility to some mobile service activities)?



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ii. how should the savings (of up to £200m) be used?

- to extend the coverage of assisted areas
(eg to include the West Midlands)
- to stimulate research and development and innovation in the regions
- to reduce taxation generally.

12. The meeting cannot reach any firm conclusions in advance of the E(A) discussion, at which the territorial Ministers, who have a major interest in this subject, will be present. But it would be useful for the participants in the seminar to comment on the proposals from the standpoint of unemployment strategy generally. Are the changes proposed sufficiently radical, bearing in mind the political constraints? What is the balance of views on the issues at i. and ii. above?

1d. Encouragement to small firms and the self-employed


13. This item covers the following specific issues:

i. whether improvements should be made to the Business Expansion Scheme on the lines discussed in paras 9 to 12 of the Chancellor of the Exchequer's Paper 8;

ii. whether there should be a share option relief limited to small companies on the lines discussed in paras 13 and 14 of the Chancellor of the Exchequer's Paper 8;

iii. whether tax barriers to the creation of small firm investment companies should be removed, as proposed in Section VIII of the Secretary of State for Trade and Industry's Paper 18;

iv. whether the small firm loan guarantee scheme should be extended as proposed in Section VIII of the Secretary of State for Trade and Industry's Paper 18;


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v. whether, as proposed by the Chancellor of the Duchy of Lancaster in his Paper 17 and discussed by the Chancellor of the Exchequer in paras 9 to 16 of his Paper 4, those starting up in self-employment should be exempted from income tax, VAT and national insurance contributions for a period of three years.

14. Before discussing the specific proposals, it may be useful to consider the strategic issue of how far the Government should go in encouraging the small firms and the self-employed. What scale of contribution to the problem of unemployment can realistically be expected from this sector within the lifetime of this Parliament? While there is a strong case for relieving small firms of bureaucratic burdens (such as VAT administration) which bear more heavily on them than on larger enterprises, how far is it justifiable to discriminate in favour of firms on grounds of size? May there not be a danger of creating new distortions of the kind the Government is generally concerned to avoid?

15. The discussion might then move on to the specific proposals at i. to v. with a view to identifying those which merit further detailed examination.

1e. Legislative and administrative burdens on industry

16. The main material for this item is in Section VI of the Secretary of State for Trade and Industry's Paper 18. Three specific issues are:

i. whether planning procedures are too onerous;

ii. whether building control and fire safety regulations place an undue burden on small firms;

iii. whether the £15 million assets criterion for the merger control provisions of the Fair Trading Act should be raised.

17. On i. the Secretary of State for the Environment has been asked to comment orally in the light of your talk with Sir John Sainsbury on 30 August. In particular is there a case for confining the planning process more closely to environmental issues with greater reliance on market disciplines on commercial issues such as whether a community should have a second supermarket?

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18. On ii. the Secretary of State for Trade and Industry does not think that there is a case for major changes in the building control system as it will operate after the Housing and Building Control Bill comes into force. On iii. the Secretary of State for Trade and Industry is himself the responsible Minister. Other Ministers would be unlikely to object to the change proposed provided that they are satisfied that the Government does not appear to be weakening in its resolve to maintain and promote competition.

ITEM 2: THE LABOUR MARKET

2a. Reducing trade union power

19. The main material for this item is the Secretary of State for Employment's Paper 9. The case for reducing trade union power goes wider than the issue of unemployment which is the focus for the seminar. The emphasis should therefore be on the possibilities for further reform which seem likely to reduce trade union ability to obstruct the free working of the labour market and thus damage employment prospects.

20. The specific issues discussed in Paper 9 are:

i. whether the steps already taken to deal with closed shops are adequate;

Proceeded agreements - essential services.

ii. whether action relating to the observance of agreements should be confined, as now envisaged, to consultations relating to the essential services;

iii. whether immunity for secondary action, already narrowly limited, should be removed altogether;

iv. whether employers should be able to lay-off without pay employees whose work is affected by industrial action;

v. whether an employer's freedom to dismiss should be further extended;

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vi. whether there should be further progressive erosion of immunity for industrial action on the lines now envisaged rather than a return to the pre-1906 position;

vii. whether legal remedies should be provided in respect of restrictive working practices. _____

21. The Secretary of State for Employment's general conclusion is that it would not be desirable to depart from the step by step approach on which the Government is already engaged. He draws attention to other ways of dealing with trade union power - decentralisation of bargaining arrangements in appropriate cases, more effective management, resistance by the Government to unreasonable union demands, and consideration, case by case, of the present institutional representation by trade unions in some public bodies.

22. You will want to avoid getting into too much detailed discussion of possible industrial relations legislation. The main objective will be to establish whether those present think that the Government's present strategy is broadly correct and to form some view of how far it might be reasonable to go within the lifetime of this Parliament.

2b. Burdens on employment arising from employment protections

23. In the Secretary of State for Employment's Paper 10 he proposes that:

i. the Wages Councils should be abolished in the 1985/86 Session;

ii. it would be possible to abolish the two Agricultural Wages Boards earlier, or at least exclude certain categories from their scope;

iii. guarantee-payments should be allowed to decline in real value;
no changes should be made at present in redundancy payment arrangements but the possibility should be kept in mind of adapting them to developments in training arrangements;

iv. all employees employing 5 or fewer employees should be excluded from the unfair dismissal provisions;

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v. the qualifying period for protection against unfair dismissal should be increased to 2 years' continuous employment in all other employment;

vi. the qualifying period for protection against dismissal on grounds of pregnancy should also be increased to 2 years.

He proposes no changes in the other employee protections described in an Appendix to the paper.

24. The purpose of the discussion will be to establish in broad terms whether the Secretary of State's proposals go far enough and are politically acceptable. In the light of that discussion he can then bring forward proposals for collective decision in the appropriate forum.

2c. Action related to wage levels


25. There are two main specific proposals:

wage - stop

i. whether, as discussed in the Chancellor of the Exchequer's Paper 21, an earnings-related limit should be placed on unemployment benefits;

ii. whether, as discussed in Paper 2 (para 2) by the Chancellor of the Exchequer, the Young Workers' Scheme might be extended to cover adult full-time workers on low wages.

26. The Chancellor of the Exchequer is sceptical about proposal ii. because of the high cost per person off the register. He regards proposal i. as feasible although he is doubtful whether the reduction in unemployment would be as high as the figure of 700,000 over five years suggested by Professor Minford. The capping of unemployment benefit would raise major political issues, particularly because of the likely effect on the incomes of family men with dependent children. The main purpose of the discussion on this item will be to establish the balance of views on these issues.


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2d. Measures to encourage youth employment

27. The main specific proposal under this item is that by the Chancellor of the Duchy of Lancaster in his Paper 16 ("A passport for a job") which is discussed by the Chancellor of the Exchequer in paras 2 to 8 of his Paper 4. The Chancellor of the Exchequer does not favour the proposal mainly on the grounds that it is undesirable to discriminate through the tax system in favour of the under 18s who have lower expenses than other taxpayers and that too many of the jobs created would be at the expense of people over 18.

28. Apart from the detailed issues arising from this particular proposal, there is a major strategic issue of how far the Government should go in trying to provide jobs for the young unemployed even at the expense of older workers. You will wish to establish the balance of views on this strategic issue and, in the light of that, on whether the Chancellor of the Duchy's proposal merits further detailed examination.

2e. Portable pensions

29. This is dealt with in Paper 5 by the Chancellor of the Exchequer. It was prompted by the CPRS Report which has not been generally circulated. ^{to all present} The Chancellor of the Exchequer agrees that present pension arrangements for early leavers inhibit mobility. He points out that the Secretary of State for Social Services is holding a conference with the pension industry on early leavers on 14 September. If he then judges that sufficient progress has not been made on a voluntary basis, he will want to propose legislation in 1984-85. One option would be compulsory revaluation of preserved rights. The compulsory provision of portable pensions would raise much more difficult issues.

30. You will wish the discussion to concentrate on the broad policy issues, bearing in mind the points made by the Chancellor of the Duchy in his Paper 15 about the burden of pensions provision. Action to improve mobility ought not to increase this burden still further. The difficulty is that any action to improve the position of early leavers must either be at the expense of long service employees or require more resources for pensions. Which approach does the Government favour? Should the Government intervene or leave the matter to be sorted out by the pensions industry together with employers and employees?



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More detailed consideration can await the proposals from the Secretary of State for Social Services following his discussions with the pensions industry.

2f. Housing policy

31. The main contribution is Paper 13 by the Secretary of State for the Environment. There are also comments on the private rented sector in the Chancellor of the Exchequer's Paper 7. The Secretary of State's main proposals are:

- i. in the private rented sector legislation to extend the "assured tenancy" scheme, which at present applies only to new dwellings, to some or all existing dwellings;
- ii. in the public rented sector reliance on existing recent measures to improve mobility;
- iii. within the owner-occupied sector, action on three fronts:
 - to keep down or reduce the costs of entry to home ownership (eg equity sharing and index-lined mortgages)
 - to reduce transfer costs (conveyancing, stamp duty etc) when a house is sold
 - to provide an adequate supply of building land through improving the planning system on lines now envisaged.

32. You will want the discussion to concentrate on the main strategic issues, ie whether it is right to adopt a gradualist approach to the relaxation of controls in the private rented sector, whether it would be undesirable to give much more weight to labour mobility within the public rented sector, and how far it would be desirable to reduce the costs of owner-occupation in the interests of promoting labour mobility and reducing unemployment.


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ITEM 3: OPENING THE PUBLIC SECTOR TO MARKET FORCES

33. In Paper 3 the Chancellor of the Exchequer draws attention to the proposals in his minute to the Cabinet of 25 July about privatisation in which he asked his colleagues for a timetable for privatisation of their industries by end September as a basis for bilateral discussions, with emphasis on the structure of enterprises so as to avoid substituting private monopolies for public monopolies. On contracting out he recalls the bilateral discussions which the Chief Secretary will be having with Ministers concerned with local authority services.

34. Since detailed action is already in hand you will not want a long discussion of this item. There are however some strategic issues relating to the privatisation of the so-called "natural monopolies". Is it right, as the Secretary of State for Trade and Industry argues in Section IV of his Paper 18, that the introduction of private capital is, of itself, likely to make such organisations more accountable? Is it feasible to envisage controlling the activities of such monopolies, when in the private sector, by regulatory agencies? Is the right course to break up such organisations by region so that the monopoly is local rather than national? The balance of views on these issues will provide a useful framework for the consideration of specific proposals later in the autumn.

ITEM 4: EDUCATION AND TRAINING

35. In his Paper 12, the Secretary of State for Education and Science makes proposals on the following lines:

- i. there should be a systematic effort to raise economic understanding, not confined to the world of education but directed at the community generally;
- ii. in addition to the large number of steps already being taken (summarised in paragraph 10 of his paper) to make education more responsive to economic needs options should be considered for reducing the dependence of universities and polytechnics on taxpayers' funds - for example by fostering business endowments and sponsorship of students.

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36. In his Paper 15 the Chancellor of the Duchy strongly endorses the need for public education, stressing above all the need to produce what consumers want and the need for personal responsibility. In paragraph 23 of his Paper 19 the Secretary of State for Trade and Industry draws attention to the low proportion of the UK workforce with vocational qualifications, compared with our overseas competitors and the skill shortages in key areas already constraining growth. He makes several detailed proposals designed to make educational institutions and students themselves more responsive to the needs of the economy. In his Paper 11 the Secretary of State for Employment proposes that increasing attention should be paid to adult training and re-training. The Chairman of the Manpower Services Commission in his paper "The First Fifteen Months" (circulated in July anonymously to the Ministers attending the seminar and deliberately not referred to on the agenda), favours a National Training Commission which would bring together the training activities of the Manpower Services Commission and the local authority colleges of further education, and also a national loan scheme for adult training.

appended
after Paper
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37. You will probably wish to divide up the discussion under the following headings:

- i. changing public attitudes to economic issues;
- ii. making educational institutions more responsive to the market;
- iii. Mr Young's ideas for a National Training Commission and a National Training Loan Fund.

You will wish to identify which specific proposals merit further examination.

ITEM 5: CONCLUSIONS AND FOLLOW-UP

38. Under this final item it might be useful to look back over the discussion of earlier items and recall the main proposals which were identified as worth carrying forward. Do they represent, along with the Government's existing policies, a worthwhile strategy for dealing with unemployment over the lifetime of this Parliament? Would it be desirable to give more priority to action on some issues rather than others?

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39. As to follow-up, the best way of proceeding would probably be to invite the responsible Minister in each case to come back with detailed proposals on those matters where further work seems likely to be worthwhile. In some cases, for example regional policy which is due for discussion in E(A), and privatisation about which there are to be bilaterals, the next steps are already settled. In other cases the next step may be a discussion in a Ministerial Committee or Sub-Committee. In a few cases you may want an informal discussion with the responsible Minister and a few other Ministers mainly concerned. You may wish to review overall progress at some stage in the Ministerial Steering Committee on Economic Strategy (E(S)).

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2 September 1983