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SEMINAR ON INDUSTRY AND EMPLOYMENT: FOLLOW UP MEETING HELD AT
10 DOWNING STREET ON 16 DECEMBER 1983

26

Present:

Prime Minister

Chancellor of the Exchequer

Secretary of State for Education and Science

Secretary of State for Energy

Secretary of State for the Environment

Secretary of State for Trade and Industry

SIS Employment
Chancellor of the Duchy of Lancaster

Chairman of the Manpower Services Commission (Mr. David Young)

Sir Robert Armstrong

Sir Alan Walters

Mr. Ferdinand Mount

Mr. John Redwood

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Introduction

The Prime Minister said the purpose of the meeting was to maintain momentum and follow up the ideas generated at the Seminar at Chequers in September.

The Prime Minister said that a factor underlying much of the work of the Group was the bias towards investment which was encouraged by generous capital allowances, and against labour which was made expensive and burdensome to employ. Government policies should work towards redressing this balance. The Secretary of State for Trade and Industry said that the White Paper on

/ Regional Policy

Regional Policy represented a significant step in this direction. He pointed out, however, that the purpose of capital investment was to raise productivity which was very low in this country compared with the United States. As it would be some time before our productivity was raised to a sufficient level, this shift should be gradual. The Chancellor of the Exchequer said the problem lay mostly with the system of capital allowances and capital grants, rather than with the payroll taxes which were not high in relation to other countries. He acknowledged, however, that the social obligations on employers remained a significant disincentive. The Prime Minister asked the Chancellor to produce a paper setting out the evidence on the bias in the tax system between capital and labour.

Taxation

(i) Share Options

The Prime Minister said that at the Seminar on Science and Technology a very strong case had been made for a more generous treatment of stock options which would allow companies to compete with the United States and which would encourage executives to move from larger to smaller firms. She urged the Chancellor to make radical changes in this Budget. The Secretary of State for Trade and Industry said a more favourable treatment of the stock options was top priority in his budget representations. The Chancellor confirmed that he was working on substantive proposals, which would apply capital gains tax on disposal rather than income tax. It would, however, be necessary to impose some restrictions.

(ii) Taxation of Companies

The Chancellor said his aim was to produce a re-casting of Corporation Tax with greatly reduced

/ allowances

allowances and a lower rate. Many of the allowances had in fact been introduced to protect companies from the impact of inflation but they could no longer be justified on this score. One issue was how fast to move in winding down allowances. The transitional problems would be difficult as the stock of unused allowances was around £40 billion.

The Chancellor asked colleagues whether they regarded a lower CT rate or removal of NIS as the greater priority. In general, the meeting favoured lower CT. The Secretary of State for the Environment pointed out that such a move would be regarded by manufacturing industry as further evidence that the Government was unsympathetic to it. Most of the benefit of a lower Corporation Tax rate would be enjoyed outside the manufacturing sector which was paying very little mainstream CT at present.

The Prime Minister suggested that a cut in NIS could be synchronised with a rise in NIC which was likely to be necessary.

(iii) Stamp Duty

The Secretary of State for Trade and Industry argued that stamp duty at 2% was making the London capital market uncompetitive, and financial institutions were increasingly trading UK securities on US markets. The problem of reducing stamp duty was the cost. At present, 40% of the yield of over £1 billion came from stocks and shares, the rest from property. It was argued that the case for cutting stamp duty on housing was not so strong. The effect of the reliefs was

/ that

that only 80% of first-time buyers paid stamp duty, though this of course would be higher in London.

(iv) Burden of Administering Tax

It was argued that Inland Revenue sought unreasonably to designate tax payers as having PAYE status. Against this, it was argued that there was a great deal of abuse, encouraged by the more favourable treatment of expenses available to the self-employed. It would be too costly to extend this treatment to employees. The Chancellor said this problem had been looked at by the Treasury but he did not see much scope for further progress.

The Prime Minister said she had had discussion with Treasury Ministers and the Chancellor of the Duchy of Lancaster on structural reform and simplification of the tax system. The Chancellor of the Duchy was preparing a work programme.

Trade Policy

The Prime Minister said the system of export promotion was proving costly. Too many orders, particularly of heavy capital goods, were in effect being bought from countries who were not in a position to repay. The Secretary of State for Trade and Industry agreed that the emphasis of the system could be improved to give greater support to smaller goods sold in cash markets. His Department was considering how to make export promotion more effective, e.g. by better targeting of sectors and markets. He felt that the service sector had also been neglected. He argued that the cost of interest subsidies was already coming down quite sharply, and he did not see much scope for further savings here. The priority was to achieve a reduction in subsidisation by other industries countries though a tightening up of the consensus might simply lead to more backdoor assistance. He considered a policy of unilateral disarmament would be damaging to our export industries though the Chancellor felt that this was the only way to make significant public expenditure savings.

/The Secretary of State for Energy

The Secretary of State for Energy warned that countries tended to become fashionable, producing a scramble for business, a competitive auction over terms and an excessive eagerness to lend. He feared China might now be such a case. It would be better to direct our effort elsewhere.

The Secretary of State for Trade and Industry agreed to produce a paper describing the operation of the export promotion system and suggesting how it might be made more cost-effective. The shift from bilateral to multilateral aid was noted with regret. The Secretary of State for Education and Science was concerned about the growth of subsidised and managed trade throughout the world. It was agreed that the Policy Unit would look into this problem.

Small Businesses

(i) Simplification

The Secretary of State for Trade and Industry recognised that the plethora of small business schemes was counter-productive. He had asked David Trippier to look at ways of simplifying the schemes, eliminating the less effective and re-packaging those that were retained. It was proposed to group the schemes together, with as far as possible common criteria and common application forms for each group. At the same time the Department would reduce the number of contact points. Someone was being recruited to market the schemes and advise on targeting them more precisely. This exercise was likely to be completed and the new schemes launched round about Easter. These proposals were welcomed.

(ii) Enterprise Allowance

It was agreed that the enterprise allowance should not be extended beyond the unemployed. With over 200,000 people entering self-employment each year, this extension would prove to be very expensive with a large dead-weight cost. The scheme would continue to be confined to the unemployed.

Planning Controls

The Secretary of State for the Environment summarised the points made in his paper. The planning system, in his view, should continue to reconcile the interests of conservation and development. He had taken a number of steps to speed up the process of planning applications, to remove unnecessary restrictions, and to give the development factor somewhat greater weight. He was also considering proposals for dealing with major retail developments.

The Prime Minister was anxious to give greater emphasis to jobs. She argued that frequently those who were clamouring for more jobs in a region were often those who opposed particular developments. She noted the improvement in the average waiting time for planning applications but said that the averages could still conceal individual cases which were being unreasonably delayed. There was frequently an unnecessarily long time between inspection and the decision.

The Secretary of State for the Environment said that the problem of planning applications was most acute in the Home Counties which was where extra housing was needed. The allocation of new land for building was vehemently opposed by existing residents who were also Government supporters. The Secretary of State for Energy recognised the strength of feeling on big store developments. The danger that these would lead to the decline of the High Street and consequently to urban decay was very real and the plight of American cities was a vivid warning.

The Prime Minister said there was an important task of presentation to be undertaken to ensure that the development case was properly appreciated. The Secretary of State for the Environment should continue his work to speed up applications and should consider recruiting more inspectors if necessary. It was agreed that an opinion survey on the relative merits of development and jobs versus conservation might provide Ministers with useful guidance. Further efforts should be made to speed up the development of derelict urban land and to encourage the approval of disused farm buildings for industrial use.

The Secretary of State for the Environment

The Secretary of State for the Environment commended the work of Miss Alice Coleman of King's College. This demonstrated that too much development was taking place on good agricultural land and insufficient on poor urban land where the objections should be less vociferous. He recommended that the Prime Minister should visit the London Dockland Corporation where important progress was being made. The Prime Minister agreed to consider this.

Barriers to Employment

The Secretary of State for Employment said that before Wages Boards and Councils could be abolished the relevant ILO conventions needed to be denounced. For the Agricultural Wages Board this needed to be done before August 1984, and for the other Wages Councils by 1986. The Agriculture Ministers were arguing in favour of retaining the AWB on the grounds that abolition would increase the scope for militant unionisation. In their view AWB was not a significant factor in raising wages.

The Secretary of State for Trade and Industry said that, whether we wanted to abolish the AWB or not, the right course was to denounce the ILO convention. He did not wish to judge the merits of the AWB case at present but denunciation would leave open the option and would also make easier the renunciation of the convention governing Wages Councils. The present convention confirmed not only the existence of the AWB but also imposed restrictions on its form. For example it set a level of wages for young workers which was inconsistent with the Government's policy and which was too high in relation to the YWS. Denunciation would be consistent with retaining the Board but modifying this provision.

The Secretary of State for Energy warned that unionisation by the TGWU, was increasing amongst farm delivery drivers. This was a potential source of trouble in the future and it would be unwise to encourage this development. Against this it was argued that the Employment Acts provided strong safeguards against picketing as this could only be done on the premises of a Board employer.

/ The Secretary of State for Education and Science

The Secretary of State for Education and Science thought that the reluctance of people in this country to set up in business on their own was a major problem. There were many cultural reasons for this but a number of steps could be taken to break down attitudes. The Chancellor of the Exchequer agreed that this would be desirable and said that a number of initiatives were in train eg his work on stock options and the work on portable pensions. The lack of entrepreneurship in the industrial regions of the country was noted. Many of the people with initiative had migrated though there were serious social disadvantages to this. It was argued, however, that the picture was not one of unrelieved gloom and it was agreed that instances of successful entrepreneurial activity could be identified. These could then be publicised and the reasons for their success explained. It was agreed that the Policy Unit should take this on.

Housing

The Secretary of State for the Environment said that the decline of the privately rented sector, at a rate of 100,000 units a year, was a major problem. One of the difficulties was the rise in home ownership which, assisted by tax relief, was tending to push up house prices, making it difficult for landlords to earn an adequate rate of return. It was difficult for rents to compete with low-cost home ownership.

On the way forward, he said shorthold had been crippled by the threat of repeal. He was, however, considering further measures on assured tenancies. A cautious step forward would be to apply short tenancies not just to newly constructed properties but to those newly converted, improved or transferred from the public sector. He estimated that this might produce an extra 20,000 tenancies a year, still small in relation to the total decline. A more radical option was to apply assured tenancies to new lettings. Another possible step was to permit individuals as well as companies to be landlords under the scheme.

He was also considering a phased reduction of rateable values to which rent control applied (£1,500 in London and £750 outside). These figures were sufficiently high to include some quite substantial properties. Finally he was considering proposals on co-operative purchase which might be particularly relevant to the London mansions.

The Chancellor agreed that the threat of repeal by a Labour Government and the substantial tax advantages for owner occupation were serious obstacles to the development of private rented accommodation. As part of the follow-up in NEDC to the papers on jobs. The TUC had agreed that impediments to mobility including housing should be studied. This was a welcome sign.

The Secretary of State for the Environment said he would be producing a paper during the next two months, with the aim of introducing a Bill in the next session.

The discussion then turned to other remits on the agenda. It was agreed that the proposal to remove private rented property from liability to CGT could prove counter-productive if it encouraged landlords to sell their properties although there might be a case for relieving resident landlords. On the future role of building societies, the Chancellor of the Exchequer promised a Green Paper early in the New Year, to be followed by draft clauses early in 1985. The intention was that the activities of building societies should remain in the housing field but with greater powers to own land, build, etc. He was waiting for the building societies to up-date their own ideas in the light of the BSA's consultative paper. No way was seen of improving the effectiveness of the Employment Transfer Scheme.

At this point the meeting adjourned for lunch.

Education

During the course of lunch the Secretary of State for Education and Science outlined the various initiatives upon which he was working. On standards in schools, his aim was to bring 80-90 per cent

of 16 year olds to the standard currently reached in CSE by 50 per cent. At the same time he proposed to define standards absolutely rather than by norm referencing.

He intended to bring forward proposals to colleagues in February/ March to change the composition of the governing bodies of county schools to give parents a majority. On grammar schools the Government's position was that local authorities were free to put proposals to him. He was currently awaiting such a proposal from Redbridge. On teacher training, he was working on proposals to define standards for initial teacher training courses.

He was not very hopeful of achieving a rapid growth in industrial sponsorship of students in universities and polytechnics. One of the problems was the level of the disregard (£900 a year). Any industrial bursary above this level simply reduced the value of the mandatory award. It was agreed that he would discuss this problem further with the Chancellor of the Exchequer. He had had a series of meetings with the Chancellor of the Duchy of Lancaster and Mr. Lawson of CCO on the initiative of increasing economic awareness in schools. Finally he said that he was seeking to get universities to accept technical qualifications as entrance qualifications. This was being done in conjunction with the MSC.

The Secretary of State for Education and Science said the response to the TVEI initiative was encouraging. Following the success of the 14 pilot schemes, extension to a further 68 education authorities was being considered. This could involve between 700-1000 schools. In conjunction with the Chairman of the Manpower Services Commission, it would be considered whether to set up direct grant technical colleges in areas not covered by TVEI.

The Secretary of State for Education and Science said that the Audit Commission would shortly be publishing a report which would reveal the inefficiency in some colleges of further education. In some colleges the working hours of teachers were extremely low and yet substantial amounts of overtime were being paid. It was agreed that this material should be given greater publicity.

Developments in the United States Economy

Sir Alan Walters reported on developments in the United States. He doubted whether the President would raise taxes before the election; likewise Congress was unlikely to cut expenditure. The Secretary of State for Energy questioned whether the United States budget deficit mattered while it was possible for the United States to finance it through capital inflows. Against this it was argued that the rapid rise in the size of the Federal debt, which could reach \$2 trillion within three years was an extremely worrying development. It was also noted that the strength of the dollar would increase the pressures in protectionism in the United States.

Next Steps

The Prime Minister said that she wished to hold further meetings of this kind, the next being around Easter to follow up any questions still outstanding and to develop new initiatives. A further seminar could also be held in September. She wished, however, to avoid the circulation of too many papers.

The meeting concluded at 1430 hours.

AT

21 December, 1983.

26.12.83



10 DOWNING STREET

SEMINAR ON INDUSTRY
AND EMPLOYMENT:

Follow up meeting
held at 10 Downing St.
on 16 December 1983.

Note of meeting:

Copy No. 1 - A. Turnbull

No. 2 - F. Maunt

No. 3 ^{SL 22.12} ~~SL~~ R. Butler

No. 4 ^{SL 22.12} P. Gregson (Caboff)

No. 5 ~~SL~~ Confidential
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