

SECRET

PRIME MINISTER

The origins of this meeting lie in the Cabinet meeting a month ago when the increase in the unemployment figures was discussed. (There is a further, though smaller, increase this month).

I see no problem with Tom King's two papers provided

- i) the first paper does not become an enormous economic treatise
- ii) the second paper devotes as much time to the future as to what has been achieved.

It would be helpful if the Treasury were brought in on the preparation of the papers.

At today's meeting of MISC 101, you asked Tom King to prepare a paper on how the position of moderates in unions might be strengthened. I assume this reflects your dissatisfaction with the provisions in the current Bill on Union elections. It might be helpful to spell out precisely what questions you want answered.

AT

Andrew Turnbull
26 March 1984

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PRIME MINISTER

You are meeting Tom King tomorrow to discuss the paper he and his officials are preparing for the seminar and then for Cabinet on the subject of jobs.

The Policy Unit was asked by the December seminar to produce a paper reviewing Government policy towards job-creation, and answering the question whether there were successes in the policy so far to which attention could be drawn. By the end of this week we should have a reasonable draft of this paper.

The conclusions it comes to are going to be grouped around the following headings:

Encouragement of new and small businesses. The prime recommendations will be:

- (a) Relax and repeal some of the licensing regulations applying to various categories of business, eg hairdressing, car hire and employment agencies.
- (b) Taking measures to ease the Employment Protection legislation and abolishing Wages Councils to assist in pricing people back into jobs.
- (c) Increasing the VAT threshold substantially to remove one of the major burdens on a whole range of smaller businesses. (The EEC problem has to be overcome.)

Jobs subsidy. The paper will analyse all the different ways in which jobs are currently subsidised by Government, and attempt, in so far as there are numbers available, to rank the different measures in terms of cost per job related to the amount of benefit accruing. The paper will conclude that subsidising jobs through things like the Enterprise Allowance, the Community Programme and the Job-Splitting Scheme is a much better and cheaper way than doing it through high-cost nationalised industry subsidy (eg British Shipbuilders).

Cleaning up deprived areas. As a result of visits by the Policy Unit, we have come to conclusions about the best method of tackling

run-down inner urban areas where there is a high level of unemployment and also intense environmental problems. Where the local authority is interested in co-operating with the spirit of government endeavours for generating new jobs, then a mechanism like the Enterprise Zone may work at a price. Where the local authorities are likely to be unsympathetic - as in London and Merseyside - the Urban Development Corporation is by far and away the best model to follow. The paper concludes that in such areas there should be an extension of the Urban Development Corporation principle. The Urban Programme is now the subject of separate review, and contains considerable waste.

Methods of monitoring. When analysing all of the programmes related to environmental improvement and job-creation, we form the over-riding impression that the mixture of departments involved, combined with the speed with which the programmes had to be developed, left monitoring and control well behind the impetus and endeavour involved. Now is the time for the departments to take stock of what they have achieved so far, to set up more reliable methods for choosing between schemes, monitoring schemes that are up and running, and auditing the figures that are coming in. This is a vital prelude to sound conclusions about the relative costs and benefits of the variety of schemes that are now in place. It is clear that there are too many schemes and that the costs and benefits of them diverge widely. Whilst it is possible to conclude that the very high-cost routes should be wound down and the cheapest routes increased, it is difficult to be firm about preferences amongst schemes of middle-range cost.

Is there an achievement to be publicised? As a result of our visits, we came across some examples of extremely encouraging improvement. Docklands in London, which you are visiting shortly, is a great tribute to all those involved, as housing and business on a human scale is now developing in an area which was entirely derelict before. Corby is the one example of successful use of the Enterprise Zone concept. Silicon Glen in Scotland is a tribute both to the powers of the private market place and to the ingenuity of a Development Agency.

You might like to tell Tom King about our work and also to discuss how to handle it from here. There are three options:

- i. The paper could be for your eyes only, and you could ask for a brief distillation of its conclusions to go to the seminar.
- ii. You could send a copy of our paper to all those attending the seminar as part of the background briefing.
- iii. You could ask Tom King to incorporate those of our findings that he finds attractive in his own work on jobs to come to the seminar and ultimately to Cabinet. The sections on DoE matters would then have to be handled separately.

I think routing the whole paper on to all those attending the seminar is best, although it may then leak; and if it did, the press could write waspish stories about employment creation on the back of it.



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Andrew Turnbull Esq
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26 March 1984.

Dear Andrew,

EMPLOYMENT

As requested in your letter of 12 March I enclose a short synopsis of two papers that my Secretary of State proposes to have prepared for consideration by the special group on 25 May and subsequently by the full Cabinet. He thinks these would cover a substantial part of the ground and, as the note indicates, he will raise orally with the Prime Minister on 27 March how best to deal with the question of further Government action.

Yours sincerely

David Normington.

D J NORMINGTON
Principal Private Secretary

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EMPLOYMENT - SYNOPSIS OF PROPOSED FURTHER WORK

The objective is to enable colleagues to have a full discussion of prospects for employment and unemployment on existing policies and projections and what further might be done by Government to improve them.

For this purpose the Secretary of State for Employment could table two papers, consulting the Treasury and others as necessary. The first paper would set out labour market facts and trends. This would indicate in broad terms the prospects for employment and unemployment on the basis of the Medium Term Financial Strategy and set a general context and scale for the discussion. It would give information on:

(a) Recent trends. Growth of output, productivity and labour supply since 1981 and the consequences for employment and unemployment. The effect of special measures, incidence of unemployment by age, duration and location.

(b) Current projections. Forecasts of output, productivity, demographic growth, employment and unemployment for the next 3 years. Expected changes in the incidence of unemployment by age, duration and location and in the effect of special measures. The assumptions underlying the forecasts and the range of forecasting uncertainties and alternative outcomes.

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This would set the scene for a second paper on major aspects of policies affecting the labour market and employment. This would describe Government action already taken and in hand or under consideration (including relevant remits from the Prime Minister's September and December 1983 meetings) as it affects employment and unemployment. Policy aspects covered would include labour costs, industrial relations reform, Government constraints on the labour market, placement of labour (including mobility and self employment), training and use of labour and changing patterns of work (including the spread of part time work and earlier retirement). The paper would attempt to assess the implications for employment and unemployment of possibilities for further action.

These two papers should give the basis for a discussion of the scope for further Government action to improve the prospects. The Secretary of State wishes to discuss with the Prime Minister the best way of preparing for that part of the discussion.

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