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18 May 1984
Policy Unit

PRIME MINISTER

JOBS SEMINAR

(1A)

Tom King's paper is a good one. However, it contains one concealed danger. If there is general acclaim at the meeting for a series of contingency measures, this could become the beginning of a clamour for a U-turn. Hidden contingency plans do not stay hidden for ever, and leaks would be damaging. People would ask why the Government thinks its policies are going to fail; and, if there are measures that are appropriate in 2 years' time, why aren't they being taken now?

Those who want to see increased public works are arguing the case for hidden reflation. This will not work. More Government borrowing will mean higher interest rates, and higher interest rates attack those parts of the economy that offer most jobs most quickly. If you increase capital spending by £1,000 million with a programme of civil engineering, you will probably raise interest rates sufficiently to destroy as many jobs in housing and other interest rate-sensitive areas of the market as you have created.

The main message is that money is already being spent on necessary infrastructure. Projects should be undertaken only if they are worthwhile. We should not panic about renewal as opposed to improvement and new development. The sewers of this country are not all about to fall in, and do not all need replacing by digging up the high streets. We do need some new roads, and the Department of Transport is moving ahead to complete the motorway network and bypasses. We do need a bigger telecommunications system, and BT is spending rapidly to achieve this end. It is, in any case, impossible to produce large-scale infrastructure projects quickly for an election. Planning constraints make such projects slow.

FOCUSSING THE DEBATE

The debate should focus on making present policies work, and on new measures that are needed. There should be no additional measures sitting in the cupboard.

Options include:

1. Making the labour market work better.
 - i. Passport for a job offers a way forward (Main Paper and Annex 1, Paragraph A.8). Lord Cockfield's original scheme has been modified in order to overcome many of

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① Removing obstacles to growth

Training allowance

Fundamental
agreements

② Wages Councils

Employment Protection Act.

③ Management Training Council =

London

4-

④ Enterprise Allowance.

600-1000

1 yr.

2 subs

long term unemployed.

large-scale redundancy

Downs - no hope

Corey - Contract

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- 2 -

the obstacles that it encountered last autumn. It is now voluntary rather than compulsory - if people can earn more by going through the normal tax channels, they should do so.

Opening the Scheme to anyone below £45 a week removes the need for an age limit. Anyone on low earnings should be outside the tax system. By the time passport is implemented, there shouldn't be any lost revenue because thresholds will be above £45 a week for a single person.

The passport system takes away all the hassle of filling in the tax forms. It simplifies life for the employer and the employee. The only subsidy element is the National Insurance credit. It can be presented as a bold measure to help individuals and small companies take on the workers they need, whilst representing a major simplification in the form-filling procedures they have to undertake. At the same time, it will help bring into the white economy chunks of the black economy.

- ii. Abolition of Wages Councils (Annex 1, Paragraph A.5). If there is ever going to be a time for Ministers to take their courage in both hands and abolish Wages Councils, this is it. Wages Councils are either ineffective or an obstacle to employment. They cover those sectors of the economy (retail, hotels and catering) that are very likely to produce new jobs.
- iii. Reform of the tax and benefit system (Annex 1, Paragraph A.13). The Seminar could have a preliminary discussion both on the policy and on the importance of raising tax thresholds. It could also discuss the related question of concentrating means-tested benefits on the lowest incomes in the community, to reduce numbers in the poverty and unemployment traps.
- iv. Modifying Employment Protection Legislation. (Annex 1, Paragraph A.14). Although this legislation has been largely neutered by amendments, it is not understood to have been neutered. The Seminar could discuss whether the political trouble of complete repeal is necessary to change people's attitudes, or whether there are other ways of persuading employers that things have changed.

2. Quality of People (Annex 1, Section C)

The programme of action in schools described in paragraphs C3 and C4 is excellent. But it will take 3 or 4 years to have any effect - too long to make any substantial

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difference before the next Election. Shouldn't there be some immediate action to raise standards, so that employers find young people worth employing? Shouldn't the Seminar consider, for example, the introduction of a new Use of English examination - a simplified form of the present one - to be taken by all 16-year-old school-leavers? The aim would be to determine whether school-leavers can read and write properly, and to give employers some standard of achievement in potential recruits. This could be introduced in advance of Graded Tests.

3. Mobility (Annex 1, Section D)

The main constraints on mobility are those imposed by the housing market. Action is needed to rejuvenate the private rented sector, and the work currently under way needs to be given an additional impetus from the Seminar. Only when unemployed people have a chance of moving to a new area, and finding reasonable accommodation at a realistic price, will they do so.

SUBSIDIARY ISSUES

There are three other relevant issues not covered in Tom King's Paper:

i. Removing administrative burdens and deregulation.

Robin Ibbs has recently reminded Ministers just how complex it is setting up a small business. What we now need is action to do something about it. Couldn't the DTI be given the task of holding talks with Treasury, DHSS, DoE and other interested Departments, with a view to proposing the abolition of several of the silliest regulatory impositions? For example, do local authorities really have to license car-hire firms and hairdressers? Previous seminars have considered planning restrictions; they are still stopping jobs. But they are, of course, politically sensitive.

Some progress is being made on the general burden of regulation, thanks to Nicholas Ridley's bus policy and the examination of vehicle licensing. Other things could be undertaken. For example, in the forthcoming reform of bankruptcy law, DTI could examine the role of the 4,000 people employed at DTI in regulating companies and administering insolvency. The White Paper on Insolvency law suggested a dirigiste route that could discourage enterprise. The final proposals should not make risk-taking too difficult.

ii. Making Job Subsidy more Effective

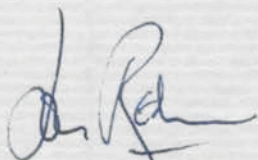
There is one contentious matter which could also be raised. The work we did, which we showed to you and then to Tom King, on the costs of job subsidy made it quite clear that subsidising people was cheaper and more effective than subsidising companies and big projects. I attach as an Annex to this paper the summary of our work. The Government would achieve more by cutting back on regional aid and expensive Airbus-type projects, and using those savings on subsidies to price people into jobs.

iii. Cleaning up the Black Economy

Since participating in Tom King's preparatory work, the Policy Unit has given more thought to the subject, and has come up with another idea. Couldn't we give an amnesty to all those who are currently fiddling either or both the tax and the benefit system, in an effort to tempt them back into honesty? This could be combined with:

- (a) a major increase in tax thresholds - so that many more people could come back into the legal economy without needing to pay tax anyway;
- (b) more fighting talk on the way in which the police and the tax and benefits inspectors are going to clamp down on tax and benefit fraud - perhaps coupled with more resources in those areas; and
- (c) the benefit reviews to see if there are ways in which people could both preserve some benefit and, at the same time, enter into part-time employment coming off the unemployed register.

Many people develop a guilt complex about the tax and benefits frauds they are perpetuating; but because of the enormous backlog they would have to pay, they continue their moonlighting existence. An amnesty would tackle this.



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