



SECRET AND PERSONAL: CMO

(i)
12

PRIME MINISTER

EMPLOYMENT PROSPECTS AND POLICIES AFFECTING THE LABOUR
MARKET AND EMPLOYMENT

I am sorry not to be able to participate in the discussion on 25 May on the two important and excellent papers by the Secretary of State for Employment. I thought it would be helpful if I were to let you have in writing the main points which I would have wanted to make in the discussion.

2 The paper sets out the difficult prospects over the next few years and I have no basis for challenging them. There will be concern that after nearly a decade of our economic strategy adult unemployment will still be regrettably high. We must be able to develop further the understanding of the reasons for high unemployment - not least that the price of too much of our labour force is too high in relation to its past levels of productivity.

3 I agree with the broad approach outlined by the

JH2AMW



SECRET AND PERSONAL: CMO

Secretary of State for Employment in the Policies paper. Both the campaign and the specific measures identified should help create conditions in which employers would be less reluctant to take on new labour. Regrettably past labour problems and the difficulty of adjusting labour forces to demand lead to cases where firms would rather let demand for their products leak into imports than meet that demand by expanding employment.

4 These considerations would prompt me to suggest that we should not only look at radical measures like the passport for jobs (though I have reservations about that) but also a selection from the menu in annex 1 to the Policies paper, but above all to the continuance of the education programme which both Government and Party undertook between 1981 and 1983. That, rather than demand stimulus measures which seem to be implied in para 11.2 of the paper, would seem to offer the best prospects of success in both improving the situation and living with what cannot be cured.

5 Turning to points of specific DTI interest I have the following comments:

JH2AMW



SECRET AND PERSONAL: CMO

- a) Labour costs - I see increased earnings as a major threat to job prospects. The recovery led to softness in resisting wage demands and the downward pressure has been halted. It is long overdue that we resolve to scrap the Wages Councils as a further signal of our determination.
- b) Labour quality - my Department would wish to continue to help bring industry and education into closer contact in getting schools to be more industry and technology oriented and ridding them of anti-industry and wealth creation bias.
- c) Labour mobility - I fully support the measures to encourage labour mobility. Steps to improve and simplify house purchase, which incidentally are also desirable aims of competition policy, are relevant here, as are improved pension transfer arrangements, but the most important single step would be the restoration of the privately rented sector.

JH2AMW



SECRET AND PESONAL: CMO

- d) Labour mobility (Regional Policy) - whilst I will certainly look to see whether there is more we could do to increase the job creation scope of the new scheme, I would not want to set aside the aims of cost effectiveness and sound investment and there are EC problems.
- e) Patterns of Work - We need to avoid giving credibility to the soft option of shorter working weeks without shorter pay. On more detailed points within this Section - I would hope that other Departments will help us on easing burdens on small firms. We have done almost all we can within the DTI. The Small Firms Loan Guarantee Scheme has been a useful job creation measure and we have announced an extension until the end of the year. Provision beyond that will depend on decisions in the PES round. On Insolvency Law Reform I am certainly willing to look a the balance of the measures in the White Paper proposals. I do not want to frighten off good management for new businesses but equally I must be careful about providing a charter for those who are ready to abuse the scope of limited liability.

JH2AMW



SECRET AND PERSONAL: CMO

6 I am sending copies of this minute to the Chancellor, the Secretaries of State for Education and Science, Energy, Environment and Employment, to the Chancellor of the Duchy of Lancaster, to David Young and to Sir Robert Armstrong. I would be grateful if all copy recipients would ensure that this minute is treated in the same way as other papers circulated for this meeting.

N7

N T

24 May 1984

Department of Trade and Industry

JH2AMW



10 DOWNING STREET

From the Private Secretary

Prime Minister

Mr Tebbit will be attending his mother's funeral on Friday and will therefore miss the Employment Seminar. This is a disappointment but I do not think there is anything that can be done. There seems little point in arranging for a substitute.

Agree?

Yes not

AT

22/5