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SEMINAR ON INDUSTRY AND EMPLOYMENT: MEETING HELD AT
10 DOWNING STREET ON 25 MAY 1984

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 Employment
- Chancellor of the Duchy of Lancaster
- Chairman, Manpower Services Commission
(Mr David Young)
- Mr. Gregson
- Mr. Redwood
- Mr. Turnbull

The meeting considered two papers by the Secretary of State for Employment, the first examining likely trends in

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SECRET: CMO

employment and unemployment; the second policies affecting the labour market. The Secretary of State for Employment said the suggestion of a discussion on employment had come up at Cabinet in March when, despite favourable indicators from almost every other sector of the economy, unemployment was still rising. It was worrying that this was still happening in the fourth year of the recovery when there were a number of disturbing signs from financial markets abroad. The prospect was that even if growth were continued unemployment could rise or at best fall slightly. The work done in conjunction with the Treasury indicated that in three years' time unemployment might lie in the range 2½-3½m. Since the discussion in March unemployment had continued to rise and large scale redundancies were still being declared, particularly in manufacturing. It was possible that new technology could accelerate the growth of productivity and reduce the growth of employment in areas such as finance and distribution which had hitherto provided substantial numbers of new jobs.

The meeting noted the contrast between the US and Europe. Five factors were identified contributing to the US' superior performance in creating jobs - the enterprise culture; more rapid deregulation; a lower level of welfare underpinning wages; much slower growth of real wages; and less unionisation. It was noted, however, that productivity, although at a high level, was growing less rapidly.

The Secretary of State for Employment advocated a publicity campaign to put across the Government's message on jobs. All too often the Government appeared in a negative light as removing rights and protections and taking measures which would adversely affect the poor. It was important to get across the positive benefits of measures to remove restrictions.

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The meeting then discussed the proposal originally put forward by Lord Cockfield of a "Passport for a Job". It was suggested that employers taking on workers under 18 at wages of less than £45 a week could do so outside employment protection legislation and without having to collect PAYE or NI contributions. In discussion, it was agreed that there were many attractions to such a scheme which would help improve the relativity between youth and adult wages and would free employers from paper-work. There were also a number of difficulties to be overcome. It was noted that, for demographic reasons, the numbers of 16-18 year olds would soon be declining. The group most severely affected by unemployment would be the 18-25s but if the limit of the scheme were set at under 18 this group could be put at a further disadvantage. The problems of deadweight and the displacement of other workers would need to be examined to see if the scheme would be cost effective. It was agreed that the Secretary of State for Employment, in consultation with colleagues should work out the proposal.

The Secretary of State for Employment said that if "Passport for a Job" were adopted the case for amending the statutory employment protections would be less pressing. Marginal changes could stir up criticism out of all proportion to the benefits. Others felt that the Employment Protection Act was still an important obstacle to the proper function of the labour market. The Secretary of State for Employment agreed to prepare a paper considering what amendments could be made.

The Secretary of State for Employment said he would shortly bring forward a paper to E(A) on wages councils. This would consider what changes could be made to the operation of wages councils within existing international agreements. The Prime Minister suggested that the UK should inform the ILO of the changes it wished to make and should state that if the latter were unwilling to accept them the UK would renounce the convention. It was noted that the

extent of unionisation in the UK was declining (the Secretary of State for Employment said this would be brought out in the paper he was circulating shortly on the power of trade unions). Abolition of wages councils could provide a stimulus for a new recruiting drive.

The meeting then noted the poor quality of UK management, only 2 per cent of whom had received formal management training. It was difficult for good managers, as opposed to proprietors to accumulate wealth. The legislation of stock options should help rectify this and produce a more entrepreneur minded management as would the Government's effort to increase competition in the economy. Mr Young referred to the work of the MSC in providing management training for small and medium size enterprises. The MSC was also active in putting together retraining packages which employers could offer in cases of major redundancies. He had had discussions with the NBC in this area.

The Secretary of State for Education and Science lamented the poor understanding of the economic facts of life. Sir Christopher Lawson had developed a number of ideas for tackling this and it was agreed that they should be pursued. It was noted that efforts to get the message through to school-children need to be careful if schools were not to be politicised.

The Secretary of State for the Environment said there had been criticism in Liverpool about cutbacks in the provision of Mode B1 (Public Sector) YTS places. Mr Young said that this was because there had not been sufficient uptake and it was costly to keep unused places open. He agreed to provide the Secretary of State for the Environment with briefing on MSC programmes in Liverpool. The Secretary of State for the Environment said his review of

SECRET: CMO

-5-

the urban programme was nearing completion. The main lesson to be learned was the need for greater co-ordination between the various departments and agencies concerned. Mr. Redwood said the Policy Unit's review of enterprise in the regions had indicated the importance of co-operative local authorities. Where these were absent it was difficult to make progress. The advantage of urban development corporations or new towns was that all the necessary powers were concentrated in one place.

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SECRET: CMO

The interaction of benefits and taxation could create a major disincentive for the unemployed to seek work. It was noted that the social security reviews being undertaken by the Secretary of State for Social Services would be examining the poverty and unemployment traps.

The Secretary of State for Employment said that despite the recent increase in places to be offered, there was still a waiting list for the Enterprise Allowance. This was the most successful and most popular of the MSC's schemes and he recommended that it be made available to all comers. This was agreed provided he could identify offsetting savings on other less effective programmes.

The discussion then turned to whether it would be prudent to examine, on a contingency basis, measures which could be introduced at short notice if, say in 1986, unemployment showed no signs of declining. In discussion, it was argued that the Government should not be looking for ways of increasing spending on employment measures but at ways of making more effective use of existing provision. To do this, it was necessary to compare the cost-effectiveness of the various measures and programmes so that ineffective schemes could be cut back and more effective schemes expanded. In doing this it was argued that account could be taken of offsets through savings in benefits, where these could be properly identified. Summing up this part of the discussion, the Prime Minister invited the Chancellor of the Exchequer, in consultation with the Secretaries of State for Social Services, Employment and the Environment, to study the cost-effectiveness of various measures relevant to employment, within the constraint of existing totals for public expenditure. They should consider whether other measures, e.g. parts of the Urban Programme and other specific programmes which the Secretary of State for the Environment may wish to suggest, might create jobs at acceptable cost if adequate offsets could be identified.

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The Secretary of State for Energy said that industrialists feared there could soon be capacity constraints if the recovery continued. It was important that industry responded by increasing investment. The Budget had created an incentive to bring investment forward but it was not clear whether industrialists were sufficiently aware of this or were responding adequately.

Concluding the discussion on employment, the Prime Minister said it was not necessary to hold a general discussion in Cabinet on the subject. Various measures should be brought to Cabinet or its Committees for decision as appropriate.

There was only a brief discussion of the paper on wider ownership. The Chancellor said that he would be looking at the taxation of pension funds both as a way of raising revenue to increase the thresholds and in the context of encouraging direct ownership of financial assets. The Secretary of State for the Environment said that any departure from the principle that the build up in the pension fund was exempt, while the benefit was taxed, would be extremely controversial and changes could be made only over a period of years. The Chancellor of the Duchy of Lancaster emphasised the need to make buying shares easy. He feared that the changes in the structure of the Stock Exchange would, while favouring institutional investors, have the opposite effect.

The Prime Minister urged the Secretary of State for the Environment to exert pressure on local authorities and public corporations to release surplus land. The Secretary of State for the Environment said he had the necessary powers; the difficulty was to identify when land was surplus and being hoarded unreasonably. It would be helpful if there were a conspicuous case in which he was able to

issue an order. Mr. Gow was working on a proposal to require local authorities to sell any dwellings which had been unlet for greater than a specified period.

The Prime Minister said she wished to hold a further meeting in the autumn. Among the subjects for the agenda would be the scope for further deregulation. She invited the Policy Unit to prepare a paper identifying areas where deregulation could be accelerated.

25 May 1984