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D/F with E(A) papers

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FROM: CHIEF SECRETARY
DATE: 16 July 1984



PRIME MINISTER

E(A) COMMITTEE JULY 1984: PAPER BY THE SECRETARY OF STATE
FOR EMPLOYMENT

It might be helpful if I set out in advance of the meeting my reactions to Tom King's paper on the annual review of special measures (E(A)(84) 41).

The paper appears to ignore the public expenditure objectives which were endorsed at Cabinet on 5 July. In order to hold to our existing plans we can scarcely contemplate bids which are discretionary and avoidable. It is beside the point that they could be financed by estimating savings. If we neglect opportunities to secure such savings the need to make policy changes to secure reductions in other programmes will be all the greater.

Expenditure on special measures rose by 61 per cent in real terms between 1978-79 and 1983-84. We accepted such an increase as a temporary and exceptional expedient to cope with the worst of the recession. Unemployment is still disconcertingly high; but the problem is now a longer term one of making labour and product markets work better. Although some special measures might have a positive role here, it seems doubtful whether this justifies continued expenditure of around £2 billion a year and we must look closely at the cost-effectiveness of the various schemes.

For these reasons I believe we should confine our decisions at E(A) to those which are operationally necessary for this year, or are genuinely without additional cost. In my view the major expansions of the Enterprise Allowance and the

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Programme proposed by Tom do not come into this category. Decisions on them, as on many of the other proposals, cannot sensibly be taken outside the context of the public expenditure discussions in the Autumn. We shall have to take account then of the fact that, special measures apart, Tom has made other net bids in the Survey averaging over £120 million a year.

Against this background, I have the following comments on the main items in the paper:

(i) Enterprise Allowance

With demand for places already outstripping supply it cannot make sense to relax the rules and then provide for all-comers. We should aim instead to reduce potential demand and improve cost-effectiveness by tightening the rules. For the remainder of 1984-85 we should not increase the current rate at which new places are being allocated.

(ii) Community Programme

I agree with the proposals on training and the average wage (subject to the money being available). But we simply cannot afford to increase the number of places. It is ironical that a major part of Tom's overall bid relates to a programme which accepts going wage rates as given, and is therefore out of step with our wider labour market objectives.

(iii) Voluntary Projects Programme

This is currently the subject of a separate review and we should wait for the results before taking any decision.

I think we ought to consider whether there is a case for persisting with the job splitting and part-time job release schemes. They have failed to take off and changing the rules in an attempt to resurrect them would reduce their cost-effectiveness.

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To sum up, I am proposing that, to reduce the very real difficulties that lie ahead, we should take no decisions at E(A) about the scale of special measures in 1985-86 which pre-empt any of the available estimating savings. We would thus retain the option of making savings of around £200 million in 1985-86 and over £300 million in each of the two subsequent years. It would be highly unwise to discard this option before detailed discussions on the Survey have even started.

I am copying this minute to other members of E(A).



PETER REES

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Manpower FT 10

Special Employment Measures

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