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From the Private Secretary

14 January 1985

Dee Racht.

EMPLOYMENT EXERCISE

The Prime Minister held a meeting today to discuss employment policy. Present were the Secretaries of State for Education and Science, Energy, Trade and Industry, Employment, Environment, Social Services, the Chief Secretary, Minister without Portfolio and Mr. Lamont. Also present were Mr. Gregson and Mr. Redwood. The meeting had before it the minute from the Secretary of State for Employment circulated on 3 January, the draft of a possible document on employment, and the minute from the Secretary of State for Trade and Industry of 9 January.

Opening the discussion, the Secretary of State for Employment said that while employment and output were rising it seemed unlikely that there would be a major reduction in unemployment. The document he had circulated drew together the Government's analysis of the causes of unemployment and set out a number of Government policy responses. He recognised that the draft before the meeting did no more than indicate the ground that would have to be covered - the final text would have to be much sharper. He drew a distinction between general and special measures. Under the former there were those measures in line with the Government's policy of improving the working of the labour market - raising thresholds in order to increase the gap between the returns from being in work and on benefit; restructuring National Insurance Contributions; deregulation; changes in the role of Wages Councils; employment protection; expanded training, e.g. through a two year YTS; and the "Passport for a Job" proposal. Under special measures he suggested a substantial expansion of the Community Programme by extending its scope to bring in the private sector and the charities. Special measures should be presented not as making good the deficiencies of the Government's policies, but as necessary transitional assistance to those suffering from the process of change. Excluding any restructuring of NIC, he calculated that the effect of his proposals could be to take half a million off the unemployment register in 1986-7. The cost would build up over time from £125 million in 1985-6 to £800 million. This was before taking account of any offsets from reduced social security benefits or increased tax receipts.

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The Secretary of State for Employment said that the best way of presenting this programme could only be decided after decisions had been taken on the individual components. He believed that bringing these measures together into a White Paper could be helpful in getting the Government's message across.

In discussion a number of points were made:-

- (i) The expenditure position was extremely tight. Any additional expenditure to finance new employment measures would have to be financed by savings elsewhere, e.g. from the social security reviews.
- (ii) For the Government to derive benefit from a White Paper, it would have to be of high quality. Bringing together everything in a single document ran the danger of raising expectations excessively, and of creating a presumption that Government was capable of doing more to reduce unemployment than was in fact the case. The effect could be to advance the case of those who argued that the Government was capable of doing more to reduce unemployment but was refusing to do so.
- (iii) A document which had no forecast or targets would be criticised as inadequate, yet provision of such targets would represent a trap for the Government.
- (iv) Any Government presentation should emphasise that each of the policy responses identified in the Secretary of State for Employment's document would require a response from other factors in the economy.
- (v) The material so far prepared failed to stress adequately the vital contribution of entrepreneurship, and to emphasise that the problems of the UK economy stemmed from low productivity. Emphasising the need for higher productivity, however, tended to arouse fears about increased unemployment.
- (vi) The present structure of taxation of husband and wife gave a strong incentive for married women to seek work, sometimes at the expense of other kinds of workers. Against this it was argued that any attempt to restructure

allowances would be very controversial and it would be difficult for the Government to secure a wide measure of agreement for any new proposal.

- (vii) It would be helpful for material to be developed illustrating commercial successes and the factors which contributed to it.
- (viii) Rather than aiming for a single document with all the problems of satisfying excessive expectations, it might be better to consider a series of announcements beginning with a full analysis of the employment situation, and followed by documents/announcements on individual policy initiatives.
- (ix) Caution was needed in considering proposals for additional expenditure. Any announcements should be consistent with the financial strategy set out in the Budget.

Summing up the discussion, the Prime Minister said individual Ministers should continue to develop the policy initiatives in which they were engaged. In addition to those issues identified in the Secretary of State for Employment's papers, the Secretary of State for Trade and Industry should assemble material on the factors behind commercial success. The Secretary of State for Employment, as well as developing proposals within the responsibility of his own Department, should seek to co-ordinate the separate initiatives so that they could be presented as a coherent programme. For the time being, the question should be left open of whether the separate policy initiatives should be drawn together into a single document or whether there should be an extended campaign comprising a series of linked policy statements.

The public expenditure position made it very difficult to accept proposals for further expenditure unless economies could be found elsewhere. It was important that work on the various elements of the exercise be carried forward with urgency. The Government should be in a position to announce the programme or begin a series of announcements around the time of the Budget. The Prime Minister said she would convene a further meeting in a few weeks to review progress.

I am copying this letter to Elizabeth Hodkinson (Department of Education and Science), Michael Reidy (Department of Energy), Callum McCarthy (Department of Trade and Industry), John Ballard (Department of the Environment), Steve Godber (Department of Health and Social Security), David Normington (Department of Employment), Richard Broadbent (Chief Secretary's Office), Leigh Lewis (Minister without Portfolio's Office), Richard Hatfield and Peter

Ferguson (Cabinet Office). The circulation of this letter should be strictly limited to those who need to see it in order to carry forward the work in this area.

*Your sincerely*

*Andrew*

Andrew Turnbull

Mrs. Rachel Lomax,  
H.M. Treasury.