



SECRET

12

P.01382

PRIME MINISTER

Seminar on Industry and Employment: 13 September

This is an item by item handling brief on the agenda for the Industry and Employment Seminar as circulated under cover of Mr Turnbull's letter of 6 September.

See Front cover

Item 1: Recent developments in the labour market

2. You will wish to ask for an oral report from the Secretary of State for Employment and then invite comments, particularly from the Chancellor of the Exchequer, the Secretary of State for Trade and Industry and the Minister without Portfolio.

3. The purpose of this item is to provide a factual background to the policy issues arising under the later items. You will not want the discussion to go on for too long (say not more than half an hour at most) or to stray into the policy issues which arise later.

A  
4. The main issue raised in the last Department of Employment note on the monthly unemployment figures dated 28 August was whether there is significance in the apparent acceleration in the increase in seasonally adjusted unemployment (14,000 a month average increase in the three months June to August, compared with 8,000 a month average increase in March to May). The six-monthly comparison (February to August 1984 compared with the previous six months) shows the rate of increase remaining steady. Since the seasonally adjusted series relates to adult unemployment, it does not reflect the effect of the Youth Training Scheme (YTS) on youth employment. Are employers retaining YTS participants rather than recruiting from the adult unemployed? Is the unemployment position better than implied by the seasonally adjusted series?

SECRET





SECRET

Item 2: Expenditure programmes relevant to employment

B  
5. This arose from a suggestion in a paper by the Secretary of State for Employment on employment policies discussed at the last seminar that, in case there was no sign of a declining trend in unemployment by early 1986, we ought to start considering how "we could quickly replace those public expenditure programmes and projects which are less labour intensive with those which would raise employment quickly, and what the cost effect could be of supplementing them further". There was no sympathy for the idea of a contingency programme of public works but the Secretary of State for the Environment was concerned that special employment measures operated by the Manpower Services Commission might be evaluated less rigorously than public sector investment programmes. He thought that if the same analysis was applied to some of his programmes they might turn out to be more cost-effective in creating jobs than some of the MSC programmes. It was therefore agreed to commission the report by officials now attached to the letter from the Chancellor of the Exchequer's Private Secretary dated 10 August 1984.

6. You will wish to ask the Chancellor of the Exchequer to introduce this item and then invite comments from the Secretaries of State for Employment, Environment and Trade and Industry and the Minister without Portfolio.

7. The main findings of the report are summarised in paragraph 28 of the paper and the implications for policy in paragraph 29. In the short run the Special Employment Measures emerge, after all, as a more cost-effective way of reducing the count of unemployed than Department of Environment programmes (with the possible exception of Urban Development Corporations and Urban Development Grant) and broad categories of public expenditure such as central Government current expenditure or investment and local authority investment.





SECRET

8. The main issues for discussion are likely to be:

i. the limitations of an analysis largely in terms of the effects on employment in the first year

(see letter from the Secretary of State for Trade and Industry's Private Secretary dated 31 August);

ii. whether the analysis suggests a need to change policy (paragraph 29 of the paper implies that the present policy is about right, ie:

- the priority given to Special Employment Measures is probably justified, but further resources diverted to them could well bring diminishing returns;
- within the Special Employment Measures some higher cost measures such as the Enterprise Allowance and Young Workers Scheme are justified by longer term supply side effects);

iii. whether the procedural suggestions are accepted, ie:

- that the DEm's Manpower Group should, if asked, evaluate, with the same criteria as apply to Special Employment Measures, any programme which a department believes is cost-effective in reducing unemployment;
- that there might be a new requirement for public expenditure proposals advanced on employment grounds to be analysed by the criteria adopted in the report.

(This is favoured by the Secretaries of State for Employment and the Environment, but the Secretary of State for Trade and Industry will point out that criteria related to first year employment effects are an inadequate basis for assessing programmes justified in relation to more long term employment effects.)

9. On a point of detail about the new procedure the Secretary of State for the Environment suggested that the interdepartmental Manpower Group should be run by the Cabinet Office rather than the

Attached to B





SECRET

Department of Employment since it would in future be looking not just at that Department's own special employment measures but some other departments' programmes. There is however no reason to think that the Department of Employment will assess other departments' employment programmes unfairly. The Manpower Group has worked well in the past and there seem no good grounds for disturbing it; I understand that this is also the Treasury's view.

Item 3: Relationships between wages and unemployment

C  
D  
10. It is common ground that the Government should stress the link between wages and unemployment. In his minute of 8 August the Secretary of State for Education and Science has asked for a fuller analysis of the economic arguments, as a prelude to renewed efforts by the Government to gain understanding of the link. The paper circulated by the Chancellor's Private Secretary of 11 September is the result.

11. You will wish to ask the Chancellor of the Exchequer to introduce the Treasury note and then invite comments particularly from the Secretaries of State for Education and Science, Employment and Social Services and the Minister without Portfolio.

12. The paper is summarised in paragraphs 1-4. The discussion about movements in real wages relative to movements in productivity in paragraphs 19-22 is particularly interesting. The public at large has been conditioned over many years to regard higher productivity as a good thing and also that higher wages may be acceptable if accompanied by higher productivity. High and persistent levels of unemployment are however now making the man in the street puzzled and anxious about higher productivity. The paper brings out the following points which may have relevance to the public debate:

- i. It is necessary to distinguish between two kinds of higher productivity: increases in labour productivity which merely result from the substitution of capital for labour without any





SECRET

increase in overall efficiency; and the more genuine higher productivity which reflects efficiency gains resulting from improved technology and better working practices. It is the second kind of higher productivity which we need to encourage.

ii. Higher productivity must precede higher wages and not the other way around, if unemployment and/or inflation are to be avoided.

iii. In order to ensure that higher productivity results in more jobs rather than higher real incomes of those in work, the growth in real incomes has to be slower than the growth in productivity.

13. Since this lengthy paper was circulated only the day before the meeting, you may feel that the best course is to invite preliminary reactions only and then to ask Ministers to study it with care and put forward, say by the end of September, their considered views on how the points which emerge from the analysis might best be deployed in public debate. It should be borne in mind that the debate will have to be carried on at a number of different levels: in academic circles, in the quality press and in speeches designed to influence attitudes of employers, employees and the public at large.

14. Meanwhile it should be recalled that the underlying increase in average earnings has been running over the past year at around 7.75 per cent compared with an increase in retail prices of around 5 per cent. In the first quarter of 1984, unit, wage and salary costs in UK manufacturing industry were 4.5 per cent higher than a year earlier; this compares with 3 per cent higher in France, no change in West Germany, 3 per cent lower in the USA, and 5 per cent lower in Japan.

SECRET









SECRET

iv. Is the new scheme adequately cost-effective? The YWS is agreed to be one of the most expensive special employment measures in terms of cost per person removed from the unemployment count, but is justified for wider policy reasons. The new scheme's net cost of £86 million for a possible reduction of 40,000 in the unemployment count suggests that it will be no more cost-effective and perhaps less so.

v. Even if the YWS is abolished, there will be an extra cost from introducing the new scheme of the order of £40-£50 million. This will add to the difficulties of this year's public expenditure round.

18. The meeting will need to reach conclusions on:

- whether the concept is acceptable;
- what age-group should be covered;
- whether the new scheme should replace the YWS;
- how the proposal should be further pursued.

Item 5: Getting across the Government's approach on employment

F  
19. It would be convenient to ask the Head of the No 10 Policy Unit to open the discussion by explaining the purpose of the draft document. You might then like to invite contributions particularly from the Chancellor of the Exchequer, the Secretary of State for Employment, the Secretary of State for Education and Science (who is very much concerned with improving public understanding in this area), and the Minister without Portfolio.

20. The draft discussion document argues that the main obstacles to employment growth are: excessive wage levels; management failures; inadequate training; excessive regulations and restrictions (including monopolies and cartels); and taxation and subsidy policies. It draws





• SECRET

attention to action already taken in certain areas (planning procedures, enterprise zones, deregulation of buses, action on the opticians and conveyancing monopoly, sale of council houses, reductions in taxation and subsidies, trade union legislation, and youth training). Finally it indicates areas in which further action might be taken: on planning restrictions; shop hours; competition in providing local authority services; relaxation of the Employment Protection Acts; the housing market and Wages Councils.

21. You will no doubt wish to avoid detailed discussion of the text and concentrate on the main issues of substance and presentation, ie:

a. assuming that the meeting generally endorses the concept of a microeconomic policy for job creation, based on freeing the market, what are the particular areas in which action should be taken over the next year, ie:

Wages Councils?

the Employment Protection Acts?

Shop hours?

Other matters?

b. how is public support for the necessary action best secured ie:

- by separate announcements in the normal way, or
- by a basket of proposals related to the general theme of removing obstacles to employment for the benefit of the "have-nots",
- if so, presented as firm proposals, or tentative proposals for discussion only, designed to soften up opinion for action at a later stage?

c. whether or not new measures are proposed, should more be done to improve understanding of the Government's general policy on employment and its achievements so far:





SECRET

- by publishing a document, or
- in a series of speeches.

Background papers

G  
22. The Secretary of State for the Environment's Private Secretary circulated under cover of a letter of 10 September papers on two subjects raised at the last seminar on 25 May: unused public sector land and public sector vacant dwellings. Further action to release these unused assets is required from certain central Government departments (notably the DHSS and MoD) and nationalised industries (notably British Rail), as well as local authorities. There will not be time to discuss these papers and some of the relevant Ministers will not be present. You might ask for these matters to be pursued urgently by the Ministerial Sub-Committee on Disposal of Public Sector Assets (E(DL)), under the Chancellor of the Exchequer's chairmanship.

*PL*

P L GREGSON

12 September 1984