

File
13

SECRET - CMO

Not to be circulated outside No. 10

Seminar on Industry and Employment: Meeting held at
10 Downing Street on 13 September, 1984
at 2.30 p.m.

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 Social Services
Minister without Portfolio
Lord Cockfield
Mr. Gregson
Mr. Redwood
Mr. Turnbull

Developments in the Labour Market

The Secretary of State for Employment gave an account of recent developments in the labour market. Over the year to March, 1984 total employment had risen by 260,000. Over the year to August, 1984 unemployment had risen by 130,000 with the trend possibly accelerating. Not only were demographic factors adverse, with an increase in the population of working age by 160,000, but the activity rate was also rising as married women came into the labour force seeking part-time work.

The Prime Minister asked how YTS had fared in its first year. The Secretary of State for Employment said it would be a few weeks before all the data required to make a judgement were available but he undertook to provide an analysis of the take up of YTS, the extent to which YTS "graduates" were finding jobs, the effect on youth unemployment, and any evidence of displacement of older workers.

Expenditure Programmes Relevant to Employment

The Group considered the Report of the Working Group on the Cost Effectiveness of different employment related programmes. It was noted that the SEMs generally had lower costs per person taken off the employment register or per net job created than the DoE programmes but against this it

SECRET - CMO

was argued that the very short run effects could give a misleading picture. Some measures, e.g. training or the reclamation of derelict land, would have beneficial supply side effects in the longer term.

It was agreed that the Department of Employment Manpower Group should carry out a regular scrutiny of the cost effectiveness, not just of SEMs, but also of other measures with similar objectives. In addition, Departments putting forward proposals for employment related expenditure, including that to support industries in financial difficulties, should attach to such proposals figures on the cost per person taken off the register or per net job created.

Wages and Employment

The Group welcomed the Treasury paper and, in particular, the arguments provided to counter the claims made by the Low Pay Unit and others that no such relationship existed. The Chancellor agreed to circulate an addendum refuting the TUC claim that the link was disproved by the existence of high wage expanding sectors and low wage contracting sectors.

It was noted that while inflation in Britain had come down, wages were still increasing too rapidly. Unit wage and salary costs were now increasing faster than in most of our major competitors: 4.5 per cent, against 3 per cent in France, no change in Germany and falls of 3 per cent in the US and 5 per cent in Japan.

The Secretary of State for Education and Science said it was so vital to achieve greater public understanding of the link between wages and unemployment but to do so in a way which did not put the Government in a negative light as seeking a low wage economy. The emphasis should be on reducing wage costs through higher productivity. It was not necessary for real wages to fall in absolute terms. Together with the Chancellor of the Exchequer and the Secretaries of State for Trade and Industry and Employment, he would shortly be meeting Sir Christopher Lawson to develop proposals for a privately financed campaign of public education on the economic facts of life. This initiative should use the material in the Chancellor's paper.

It was noted that whenever public sector unions were given a choice between higher wages/lower employment and lower wages/more employment they invariably opted for the former.

The Chancellor said the Treasury were doing further

research to establish econometrically the relationship between wages and employment.

Passport for a Job

The Secretary of State for Employment set out his preliminary thinking on the Passport for a Job proposal. He had considered various options for different age groups and coverage of firms. He saw merit in targeting the scheme on young people for whom unemployment was highest, but was anxious to avoid overlapping with the YTS. He suggested, therefore, targeting the scheme on those between eligibility for YTS and age 20. The scheme would apply to all employers, not just small firms. Young workers in the relevant age group would be given a certificate, (he did not think "Passport" was the correct term as it implied a right to a job) which would entitle employers taking them on at less than a specific net wage without deducting PAYE or National Insurance contributions (for which a credit would be given) and with exemption from wages council and employment protection legislation.

A number of reservations were expressed. It would be difficult to defend exempting one group from income tax when slightly older workers could be paying tax while earning less. The way round this was to set the net wages close to the income tax threshold. It was doubted whether there would be much saving in bureaucracy as Government would need machinery to ensure that certificates were issued only to those eligible and that employers applied the exemptions only to those holding the certificates.

The Secretary of State for Employment suggested the net wage should be set at around £50 per week which was equivalent to about £70 gross. Lord Cockfield thought this was, if anything, too low as it provided little margin above the social security benefits available to young people. The scheme could fail to attract young workers into it. Others thought £50 was too high, making the scheme too costly and creating difficult comparisons with those outside the scheme.

Other points made in the discussions were:

(i) If a credit were given for National Insurance contributions, it would still be necessary for employers to keep records and little paperwork would be saved. It might be preferable to put those in the scheme on the same basis as students.

(ii) Changes had recently been made to the YWS to make it follow on naturally from YTS. Before any changes were made, there should be time to assess the effect of

this.

The Prime Minister said the Secretary of State for Employment should continue work on the scheme, i.e. different age groups, the size of firm to be eligible and the net wage to be offered, taking account of the points made in the discussion. The Treasury should be involved in making costings of these options. He should consult the Secretary of State for Social Services on the inter-relationship between the net wage and the social security benefits available to young people. The Secretary of State for Employment should continue to work on the various remits which emerged from the meeting of 24 July on the reduction of administrative and legislative burdens, in particular the case for reducing the scope of employment protection legislation. How far it was possible to make progress generally in this area would be relevant to whether a scheme targetted on young people should be introduced.

Getting across the Government's approach on employment

Mr. Redwood explained the background to the Policy Unit's suggestion that the Government should issue a discussion document. All too often, measures to reduce legislation were seen as an attack on workers' rights and protections. Setting out the whole picture of benefits to be gained from these efforts would make it easy to secure acceptance of particular measures. A discussion document, possibly to be issued in the spring of 1985, was one way of setting out the Government's approach. The text circulated was intended to do no more than indicate the possible scope and flavour of such a document.

In discussion it was agreed that no decisions should be taken at present on whether such a document should be issued. Much would depend on how it looked when fully worked up and on whether the Government could produce an adequate package of measures to give substance to it. Alternative ways of getting the message across would be a campaign of speeches, Party documents and the NEDC exercise on jobs, should that be resumed.

It was agreed that the Government had been successful in convincing the public that it could not be blamed for most of the rise in unemployment and that unions and high wages were a more important factor. While a discussion document would have to be backed by a programme of measures which represented an adequate response it should not recreate the impression that the Government was taking responsibility for the maintenance of full employment.

The Secretary of State for Employment, the Secretary of State for Trade and Industry and the Minister without

Portfolio should work together on ways in which the Government's case could be better presented. They should assemble material for speeches; should carry forward work on a possible discussion document which might be issued early in 1985; and should consider what might be the elements of a package of measures which could give substance to such a document. The Chancellor should be kept closely in touch with this work. The Prime Minister would convene a further meeting, probably in November, to review progress.

Planning

The Secretary of State for the Environment said he would shortly be bringing forward a paper on the ways in which the planning system could be improved in order to remove obstacles to enterprise and the creation of jobs.

Disposal of surplus land and dwellings in the public sector

It was agreed that the two papers which the Secretary of State for the Environment had circulated to the group should go to E(DL) for discussion and action. It was important to involve MOD as a Department with major holdings of land. The Secretary of State for the Environment said he had started statutory proceedings against local authorities to require the release of nine sites. He was hopeful that this would have an affect in encouraging authorities to act of their own accord.

HT

17/9