

CONFIDENTIAL

17 October 1984

PRIME MINISTER

JOBS AND PAY

There is growing acceptance around the Cabinet table and in the press that ever-higher real pay for those in work keeps others out of jobs. Union minimum rates, the benefit system, and automation stop the market working.

Owen has tried to address himself to this problem. It will naturally invite the question: what is the Government doing about it?

A Solution

If there were no social benefits and inadequate private philanthropy, no labour cartels, and enough honest money around, there would be little unemployment.

We need to restore more of the workings of the marketplace by:

- a. Tackling the labour cartels. The argument that union minimum rates and conditions destroy jobs needs constantly drumming home - your No.10 example in the speech was a good way of doing it.

CONFIDENTIAL

But we can do more than educate. Contracting-out public services brings competition, the best force for moderation, into play. Where it has been done - in all too few places - it has brought new labour agreements, new attitudes.

Competition by tender and by opening up restricted markets also works on pay and work practices.

The most important impact of these policies is not their first round impact on pay or jobs - contracting-out actually destroys jobs in round one in the particular services affected - but in their impact on attitudes.

Break public labour cartels for manual workers, and then you can take on more unskilled at low rates without union opposition. Remember the Community Programme is union rates, not benefit-plus. So it does less for more cost than need be.

And wherever possible, split monopolies and break up state monoliths. The Department of Energy is still letting us down on gas. By all means abolish Wages Councils to take government out of the job-destruction business.

- b. Enough honest money. Low interest rates are a great tonic for construction activity, particularly for private housing, the most labour-intensive.

There is more than enough money around. If anything, the laxity of money growth has led to more inflationary pressures, especially on wages. So do not relax: drive for lower interest rates the honest way by a tough spending round.

And keep on explaining that on investment it is the total that matters, and that's growing nicely.

- c. Tackling the benefit system. We believe that it may now be time to consider a benefit-plus Community Programme.

Canadian and US experience shows that cuts in benefit eliminate the unemployment trap and force people back to work very quickly. But cutting benefits for the long-term unemployed is thankless and heartless work. An easier way of helping the long-term unemployed out of the trap is to offer them work as home helps, companions to the sick and old, rubbish collectors, graffiti removers, etc, paying them £10 more than their benefit. Unlike the present Community Programme, this would avoid enshrining the union rate-for-the-job, and would ensure that all long-term unemployed people both

had the offer of a job and a financial incentive to take one - regardless of their benefit level. A very big scheme would still cost well under £1 billion. This should be financed further by substantial cuts in less effective job-creation programmes (Regional Aid - £200 million; DTI industrial subsidies - £200 million; Nationalised Industry EFLs - £400 million; Capital projects - £200 million).

When this idea was raised previously, it was opposed on the grounds that people on different amounts of benefit would be doing the same work for different wages. The voluntary bodies and local authorities (who act as agents for the Community Programme) objected on these grounds. But the mood is changing. We believe that if you now issue a public challenge to the voluntary bodies and local authorities, offering Government money to fund benefit-plus jobs for a substantial number of people, they would find the offer hard to resist. The unions would, of course, oppose the scheme; but how vociferous could they be in their condemnation of such an assault on unemployment? Politically, you would be in a very strong position, either winning the argument or proving that unions prevent jobs.

- d. Consider eliminating the tax on jobs. Instead of adopting David Owen's complicated and risky strategies

(see other paper) you could simply abolish the employer's National Insurance Contribution, and replace it by an equivalent increase in Corporation Tax. This would transfer the burden from those firms that are labour intensive to those that are profitable; and would significantly reduce the cost of labour vis-a-vis capital investment. It would be completely in line with the onslaught on NIS in the last Budget, and would not be an attack on the contributory principle, since the employee's National Insurance Contribution would be left intact. A bold move of this sort might well alter employers' psychology, and immediately reduces the costs of employing somebody.

The main argument against is the last Budget's Corporation Tax reforms which looked forward to predictable falling rates of Corporation Tax over the life of this Parliament. That pledge would be torn up, and instead the Chancellor would have to plug away at the extra benefit gained from scrapping a whole tax on jobs - the employer's National Insurance.

### Conclusion

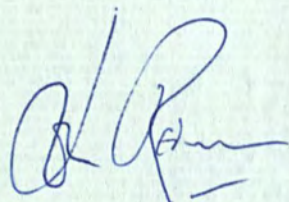
A benefit-plus programme, in order to work, has to be linked to a firmer stand on breaking union restriction and government regulation.

E, R.

**CONFIDENTIAL**

The first effect is a paradox. A Government pledged to cutting public payrolls takes on a lot more people. It only has to be so if you wish to preserve the existing benefit system more or less as is - it means owning up to the millions already on that form of the public payroll, and giving some of them some work to do.

You could link the scheme to private contracts and have the people organised by private entrepreneurs if you wished to present it as more for less under the contracting-out drive.



JOHN REDWOOD

- 6 -  
**CONFIDENTIAL**

Investment figures (Policy unit)

Employment - 1) any figures on

- loss of jobs due to new technology  
compared with

- new jobs due to new technology

2) any reversal of net industries  
as a counterweight to  
technology.

Training.

Y.S.S. - not kept on.