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Industry & Employment Services
file

Prime Minister 2

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PRIME MINISTER

David Owen's article on 15 October in the Guardian claimed to set out a way of putting "a million to work".

Some of his points are taken directly from the writings of Professor Layard. The rest is plagiarism from Conservative schemes.

The Layard tax proposals

Layard's work is based on the unsound principle that rigidities in the labour market, sloppy bargaining, trade union pressures and inflation can be solved at a stroke by tax measures. Normally tax measures set up countervailing pressures that thwart the intention, or encourage evasion and avoidance. They cannot revolutionise trade union practices.

There are three proposals related to National Insurance.

- a. Abolition of employer's National Insurance Contributions for additional employees for the first 2 years that they were taken on. This would be an incentive to greater employment with substantial deadweight cost.

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Problems include:

- i. Who counts as an "additional employee"?
 - ii. Won't some people close down existing businesses,
and set up under a new name to claim the rebate?
 - iii. How is the rebate to be funded?
 - iv. What happens after the 2 years elapse? Sackings
and new recruitments?
- b. Giving "shrinking firms" a rebate of employer's
National Insurance Contributions for any number of
employees over 90 per cent of the previous year's
number. The intention is to keep numbers up in firms
that face temporary difficulties. But:
- i. What qualifies as a "shrinking" firm?
 - ii. Couldn't a firm announce 10 per cent redun-
dancies, and then cut by only 5 per cent, then
claim a rebate for the remaining 5 per cent, whom
they had no real intention of sacking anyway?
(Cf Temporary Employment Subsidy.)
 - iii. How is the rebate to be funded?

- c. Increase the employer's National Insurance contribution from 10 per cent to 30 per cent, and give a fixed £36 per week rebate to the employer for every worker employed. This is the best of Dr Owen's schemes: it penalises high pay and subsidises low pay, whilst in principle having no net effect on the Exchequer. But:
- i. Employees might sack high-wage employees, or take on fewer, thus aggravating our problems.
 - ii. Companies might pocket the subsidy element and buy more machines, or pay higher dividends, without taking on any more low-paid people.
 - iii. It would be an unavoidable tax on high wage (often high growth) industries, and a gratuitous benefit to low wage (eg textiles) industries.
 - iv. It can be glibly attacked as an even bigger tax on jobs than we currently have.

An inflation tax. You allow your fiscal policy to relax a little, and then as soon as inflation sets in, you tax the benefits of that inflation away. He seems totally unaware of the enormous enforcement problems that would arise, as any inflation tax means second-guessing the market place in its millions of decisions about individual prices and wages. If it is successful it represents the most Draconian series

of controls and regulations yet devised for tampering with every single market-related price and wage in the economy.

It would distort movements in relative prices, and could lead to queues and shortages. The most likely result of the inflation tax proposal is chaos. If it had any success at all, it would only be at the cost of important freedoms.

Other measures

A major increase in the Community Programme. This would alleviate the immediate problem; but, because of the Programme's wage rules, it would also help to entrench present union rates, which Dr Owen professes to regard as a major cause of unemployment.

Concentrating on the under 25s with a training emphasis.

This is something the Government agrees with and is working on.

Employing more cheap female labour in health and personal social services areas. If this employment was to be undertaken in direct care, and if substantial offsetting economies have been made elsewhere, then it is something that would make sense. Dr Owen fails to say how he would finance it, or whether it falls foul of Labour's sex discrimination laws.

A £1,000 million capital investment programme, with the accent on housing. The Government is already pursuing a generous capital investment programme, whilst the surge in private sector investment means that total investment has been rising steadily for several years. If it's jobs you're after, you get many more jobs employing low-paid people direct on the public pay roll than indirectly through a construction contract.

An increase in the Loan Guarantee Scheme. No. He does not understand the high risks and bad debts incurred in running it. This rightly led to some reduction in the amount of money being advanced under it. New ventures need equity not debt.

A substantial increase in the Enterprise Allowance Scheme, as Ministers currently are doing.

He speaks favourably of the current review of regional policy, seeking to divert capital grants into job-related grants.

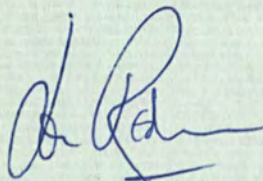
Conclusion

Owen has put together a complex and superficially attractive package which will win a great deal of support. Because its best bits are plagiarism - the highest form of political flattery - it will be attractive to many on our side. It is

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vital that it is countered both by saying that its best bits are copied, and its worst bits are the crackpot academic schemes of Professor Layard, who does not understand how markets work and why prices matter.



JOHN REDWOOD

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