

PRIME MINISTER

7 June 1985

LONG-TERM UNEMPLOYMENT

Tom King has responded to your request, and has produced an attractive set of proposals. They cover all the main options; but they need further study. They have a high cost. On Tuesday, you may want to discuss with the Chancellor how much can be afforded, and how any measures would be funded.

The main elements of the package are:

- i. Further increase in Community Programme, with emphasis on cleaning up the environment. This could take 140,000 people off the count by Spring 1987, at a net cost of under £300 million pa.
- ii. A new 'Facelift' Programme also cleaning up the environment. This would be run directly from D/Emp, with some people paid 'benefit plus', others receiving subsidised jobs from building firms etc., and yet others employed on Community Programme terms. It could take 80,000 - 90,000 off the count by Spring 1987. D/Emp give it a net cost of about £275 million pa in their tables - but this does not allow for benefits saved; the true net cost would be substantially lower.
- iii. More grants to charities to provide useful work for the long-term unemployed, and more 'training allowances' for people on the Voluntary Projects Programme (thereby getting these people officially out of unemployment). Together, these measures could take another 80,000 - 90,000 off the count by Spring 1987 at a net cost of about £150 million pa.

- iv. A set of measures to give the long-term unemployed more incentive to seek work including:
- a. a 'Job-Finding Allowance' which could help people out of the unemployment trap;
 - b. 'Job Clubs' in which unemployed people are given help with writing applications for jobs etc.;
 - c. an 'open learning programme', in which the long-term unemployed receive immediately useful training leading to recognised qualifications that will make them more attractive to employers.

State of Play

The MSC is confident that it could deliver the further increase in the Community Programme as well as the Charities Programme and the changes in the Voluntary Projects Programme; but the costings on these measures need to be more firmly established.

The 'Facelift' Programme is, at present, no more than an idea. It would need to be thoroughly worked up between now and mid-July. The same applies to the 'Job-Finding Allowance', the 'Job-Clubs' and the 'Open-Learning Programme'.

Tom's idea that boards of worthy volunteers from the private-sector could be made responsible for delivering the programmes is even more speculative. The suggestion that each such organisation should be asked "to draw up a plan for employment regeneration in its area" is unfortunate: it sounds like economic planning of the worst sort. The proposal will need modification.

Presentation and Packaging

To ensure maximum impact, the new measures would have to be brought together into a single, coherent package that could be sold to the public in the same way as the City Action Teams.

If the package were sold as a 'clean-up' campaign, the measures might achieve more popular recognition, and be somewhat less vulnerable to attack as pure make-work schemes.

Timing

If you wanted the full ensemble, with 300,000 off the register by Spring 1987, announcements would have to be made by the end of the year, since some elements of the package - like the benefit-plus scheme - would need entirely new delivery machinery and could not be brought quickly into play.

A smaller effort, using only those schemes that could be delivered with existing machinery, (eg the increase in the Community Programme clean-up operations) could be delayed until next year, and still have a considerable effect by Spring 1987.

Finding the Money

Tom King gives an estimated net public expenditure cost (allowing for benefit savings) of about £700 million pa for over 300,000 people off the count by Spring 1987. We expect that this will turn out to be roughly correct.

There are four ways to find the money:

- a. The PES round - unlikely to find £700 million extra in a sensitive way.
- b. An across-the-board 1% cut to finance these specific measures - a long shot as departments are good at choosing political hot potatoes.
- c. Cutting back on high cost per job subsidy schemes in nationalised industries, Regional Policy, industrial support, Trade and Aid - logically the right thing to do but difficult to persuade many colleagues.
- d. Using extra asset sale proceeds and fiscal adjustments at the expense of tax cuts - asset sales can now be very buoyant, leaving more for tax reduction as well.

The Chancellor is likely to be very sceptical about all these possibilities. We agree with him that deregulation and measures to improve markets are best; but we do not believe that the necessary changes are being made fast enough to affect unemployment before the election.

The Political Judgement

The choice is between:

- a. larger tax and NIC cuts, consistent with the Government's policies and philosophy, but which are unlikely to yield significant reductions in unemployment between now and 1987;
- b. smaller tax and NIC cuts, with a major clean-up programme that has a relatively predictable and noticeable impact on unemployment, but provides what may be described as 'unreal' jobs at low pay;

- c. a half-way house - a small benefit-plus clean-up programme, with (say) 100,000 people off the register at a net cost of about £150 million; this would break the union rate-for-the-job that raises the cost of the Community Programme; it would have some public relations impact; and it would leave the tax cuts largely intact.
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If you go all out for the tax-cuts route, with roughly the present levels of unemployment remaining up to 1987, you will have opposition from many of the Government's opponents, and some of its 'supporters', who will say that your strategy has failed; but the Government will have stuck to its guns.

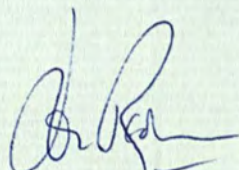
If you opt for a big clean-up campaign, you will be able to meet the criticism of an 'uncaring, unsuccessful economic policy' at the next election with the answer that unemployment is falling. You would be responding to a national mood and you would make many of the Government's supporters happy; but you will be attacked by the unions, (who will describe this as 'fake work at slave rates'), and the construction industry, (who will fear the cheap competition).

If you take the middle course, with a small clean-up scheme, you will attract some credit with supporters, and not too much hostility from the unions, construction industry and City. But you will not have a major effect on the unemployment figures, and you may be accused of taking yet more half-hearted measures through a failure of nerve.

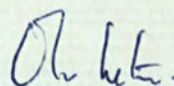
Conclusion

We recommend that:

- a. Tom King should be asked to work out the details (1) of a full package, and (2) of a reduced programme that could be introduced later at much lower cost; he should come back by the end of the recess;
- b. no decisions should be taken until these details have been fully worked up;
- c. you should aim to bring measures to bear on the unemployment total before the next election, and to find offsetting cuts if at all possible (by any of the methods suggested above); otherwise, you should reluctantly accept smaller tax cuts to buy jobs and improve labour markets.



JOHN REDWOOD



OLIVER LETWIN