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bcc O Letwin

(5)

10 DOWNING STREET

From the Private Secretary

11 June 1985

Dear David

LONG-TERM UNEMPLOYMENT

The Prime Minister held a meeting today to discuss ways in which long-term unemployment could be reduced. Present were the Chancellor of the Exchequer, the Secretaries of State for Trade and Industry, Environment, Social Services, Employment, Wales and Transport, the Chief Secretary, the Minister without Portfolio, the Minister of State Department of Employment and Mr. Stewart (Scottish Office). Also present were Mr. Wiggins and Mr. Letwin. The meeting had before it the minute of 5 June from the Secretary of State for Employment and the minute of 6 June by the Minister without Portfolio.

The Secretary of State for Employment said unemployment was continuing to rise and the number unemployed for more than three years was likely to reach half a million in July. Despite optimism from the CBI, the manufacturing sector was continuing to shed jobs and there were doubts as to whether the service sector would expand as fast as it had done in recent quarters. Against this background he had proposed measures which would have a significant impact on the unemployment figures. He had looked again at an expansion of the Community Programme beyond the increase agreed in the Budget. Schemes based on voluntary organisations and charities to help the long-term unemployed were being developed on a pilot basis and could be expanded further. Through these schemes the Government could begin to move away from the union imposed restrictions on CP and towards the concept of Benefit Plus without having to tackle head on all the opposition which Benefit Plus would provoke. He also suggested a new "Facelift" programme under which schemes could be organised to clear derelict sites and refurbish buildings.

The Secretary of State for Employment said further measures were needed to establish whether those registered as unemployed were genuinely available for work. He recognised that the experience of the regions varied greatly but there were legitimate doubts as to whether all those registered as unemployed in the South East (274,000 unemployed for more than one year) were genuinely unemployed, or whether they were working in the black economy or were in effect retired. The changes which had

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been made in the administration of benefit, while securing economies in manpower had weakened the link between receipt of benefit and readiness to work. He suggested an intensive programme of interviews of the long-term unemployed to establish their true position. Pilot schemes to counter fraud had been launched in Crawley and the Thames Valley and these could be developed elsewhere.

The Minister without Portfolio said that both he and the Secretary of State for Employment had put forward ideas for an incentive to encourage the long-term unemployed to seek work. His scheme took the form of a tax credit while that of the Secretary of State was based on a grant. The margin between net income for those in work and on benefit provided insufficient incentive. For example, a married man with two children needed to earn £130 a week to bring his net income £15 a week clear of what he would receive on benefit.

The Minister without Portfolio also supported measures to counter fraud. This would command greater public support if it were coupled with measures to deal with tax evasion. The DHSS and Inland Revenue should coordinate their efforts. At present DHSS could bring to the attention of Inland Revenue any tax evasion which it detected in the course of its work but Inland Revenue could not reveal to DHSS the names of anyone it thought engaged in benefit fraud. There was a case for changing the law to allow information to move in both directions.

The Chancellor of the Exchequer said the pressure on the public expenditure totals was extremely strong. He saw no prospect of being able to afford the increases implied by the full programme suggested by the Secretary of State for Employment. He doubted whether it was right to introduce a new package of special employment measures before the measures introduced in the Budget - extension of YTS, expansion of CP and restructuring of NICs - had had time to take effect. All the signs were that since the Budget the economy was more buoyant than thought. He agreed, however, that measures were needed to establish the true nature of long-term unemployment and to cut down on fraud. The Inland Revenue would do all it was empowered to do to cooperate with the DHSS.

In discussion the following points were made:

- (i) As originally proposed, CP was to be operated on a Benefit Plus basis. As a result of union opposition it could be launched only by paying "the rate for the job". This was one of a number of examples where union opposition had prevented the introduction of job creating measures or had dictated their operation in a less effective form. A note should be prepared drawing together examples.
- (ii) Government needed to know more about the nature of long-term unemployment and how it differed between

regions. The Government should commission a study on the black economy. This could be done through ESRC or the University of Buckingham.

(Mr. Morrison said he would be seeing Professor Blaug from Buckingham to discuss this.)

- (iii) The development of Benefit Plus could be seen as a way of testing whether those registered as unemployed were genuinely available for work. The Government could set up a scheme and invite applications. If the response was very low the Government would have demonstrated that many claiming to be unemployed were not; if the take up was high there would be a significant impact to the unemployment figures.
- (iv) Any proposal to expand special employment measures should be assessed against the benefits from expanding other forms of infrastructure spending such as urban programme or housing improvement. These programmes often had higher costs per job but ultimately produced more assets for the nation. It was argued that it was wrong to cut back support for research and innovation in order to make room for special employment measures whose benefit was temporary.

In discussion, it was suggested that too much emphasis had been given to reducing civil service numbers at the expense of savings to the Exchequer. It was also noted that increasing manpower for services whose costs were recovered from fees would allow a better service to be provided while reducing the net cost to the Exchequer. The Prime Minister thought the Government ought not to economise on manpower in pursuit of fraud or crime. This should not, however, turn into harassment of legitimate small traders.

Summing up the discussion, the Prime Minister said that no expansion of the Community Programme should be undertaken on its present basis before the impact of the measures introduced in the Budget could be assessed. Further work should be undertaken to develop schemes to help the long-term unemployed under the aegis of charities and voluntary bodies. Ideas to provide an incentive for job search by the long-term unemployed should be further researched. The concept of providing jobs on a Benefit Plus basis should be further developed as a way of testing whether those registered as unemployed were genuinely available for work. The Treasury, Department of Health and Social Security and Department of Employment should cooperate in developing schemes to combat fraud. The procedures for administering benefit should be re-examined to ensure that those receiving benefit were genuinely unemployed. A programme of interviews for the long-term unemployed should be introduced. In developing proposals Departments should take account of regional differences in unemployment. The Department of Employment, in consultation with the Department of Education and Science, should commission a study from ESRC or the University of Buckingham

into the nature of the black economy. The Treasury, in consultation with relevant Departments, should re-examine the level of manpower devoted to the control of fraud and to reconsider the staffing of services whose cost was recovered by fees. Papers reporting programme on these initiatives should be circulated to E(A) by mid-July.

I am copying this letter to Rachel Lomax (HM Treasury), Elizabeth Hodgkinson (Department of Education and Science), John Mogg (Department of Trade and Industry), John Ballard (Department of the Environment), Steve Godber (DHSS), John Graham (Scottish Office), Colin Williams (Welsh Office), Richard Allen (Department of Transport), Richard Broadbent (Chief Secretary's Office), Leigh Lewis (Office of the Minister without Portfolio), Stuart Lane (Mr Morrison's Office) and Richard Hatfield (Cabinet Office).

*Your sincerely
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