

E(81) 8th Meeting

COPY NO 57

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
TUESDAY 24 FEBRUARY 1981 at 9.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon John Nott MP
Secretary of State for Defence

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment

The Rt Hon John Biffen MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon Leon Brittan QC MP
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Humphrey Atkins MP
Secretary of State for Northern Ireland

The Rt Hon Patrick Jenkin MP
Secretary of State for
Social Services
(Item 1)

The Rt Hon Mark Carlisle QC MP
Secretary of State for Education
and Science
(Item 1)

Mr Michael Roberts MP
Parliamentary Under-Secretary
of State, Welsh Office

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P Le Cheminant
Mr D J L Moore

CONTENTS

Item No	Subject	Page
1	UNEMPLOYMENT AND YOUNG PEOPLE: INDUSTRIAL TRAINING	1
2	THE FAIR WAGES RESOLUTION	7

THE SECRETARY OF STATE FOR EMPLOYMENT said that his memorandum E(81) 20, covered a draft consultative document setting out proposals for major improvements and reforms in the quantity and quality of industrial training. He would wish to revise this draft substantially and, after consultation with them, to publish it jointly with the Manpower Services Commission (MSC) in April; in this way he would engage the formal support of the Confederation of British Industry and the Trades Union Congress (TUC). Consultations would be concluded by September, by when the Employment and Training Bill would have been enacted to provide for revision of the system of Industrial Training Boards. The consultative document would be based on three main objectives: to ensure that by 1990 all sixteen and seventeen year olds had the opportunity to undertake either full-time education or a traineeship combining work and work-related training and education; to secure that young entrants and adults were able to train to recognise standards related to the skills required in jobs; and to open up wide-spread opportunities for people - whether employed, unemployed, or returning to work - to increase and update their skills and knowledge during the course of their working lives. Considerable resources would be required in the longer term, particularly for foundation traineeships, to meet these objectives but the extent to which costs should be met by Government, by employers or by the trainees themselves was still a matter for consultation. In his view it was essential that these objectives should be pursued by entirely voluntary means. Compulsion, as proposed by the CPRS, would alienate both employers and young people and would retard the progress which could otherwise be made under a voluntary approach. He agreed with the CPRS that there was a need for wider wage differentials between young and adult employed, although it would not be easy to negotiate this without provoking collective bargaining to increase the rates once more. He was not convinced that there were significant opportunities for expanding the Community Enterprise Programme with lower unit costs, and there

* "He did not think it necessary to set up a new institution on the lines of the Open University, though the label 'Open Tech' was a useful one; a better approach would be to seek to promote open training and the use of "distance learning" techniques within existing budgets."

the Government spending more over the two years as a counter cyclical measure to reverse this trend. In his view the most effective way of reducing the numbers of registered unemployed was to give further encouragement to early retirement by offering a more generous Job Release Scheme.

Page 1 THE SECRETARY OF STATE FOR EMPLOYMENT said that his memorandum E(81) 20, covered a draft consultative document setting out proposals for major improvements and reforms in the quantity and quality of industrial training. He would wish to revise this draft substantially and, after consultation with them, to publish it jointly with the Manpower Services Commission (MSC) in April; in this way he would engage the formal support of the Confederation of British Industry and the Trades Union Congress (TUC). Consultations would be concluded by September, by when the Employment and Training Bill would have been enacted to provide for revision of the system of Industrial Training Boards. The consultative document would be based on three main objectives: to ensure that by 1990 all sixteen and seventeen year olds had the opportunity to undertake either full-time education or a traineeship combining work and work-related training and education; to secure that young entrants and adults were able to train to recognise standards related to the skills required in jobs; and to open up wide-spread opportunities for people - whether employed, unemployed, or returning to work - to increase and update their skills and knowledge during the course of their working lives. Considerable resources would be required in the longer term, particularly for foundation traineeships, to meet these objectives but the extent to which costs should be met by Government, by employers or by the trainees themselves was still a matter for consultation. In his view it was essential that these objectives should be pursued by entirely voluntary means. Compulsion, as proposed by the CPRS, would alienate both employers and young people and would retard the progress which could otherwise be made under a voluntary approach. He agreed with the CPRS that there was a need for wider wage differentials between young and adult employed, although it would not be easy to negotiate this without provoking collective bargaining to increase the rates once more. He was not convinced that there were significant opportunities for expanding the Community Enterprise Programme with lower unit costs, and there was a risk of resistance to this from the unions. *He did not think it necessary to promote training to standards, and wider opportunities for retraining, by the introduction of an "Open Tech"; a better approach would be to promote "Distance Learning" within existing training budgets. The opportunities for apprenticeships were likely to fall sharply in the coming Autumn and there was a case for the Government spending more over the two years as a counter cyclical measure to reverse this trend. In his view the most effective way of reducing the numbers of registered unemployed was to give further encouragement to early retirement by offering a more generous Job Release Scheme.

1. UNEMPLOYMENT AND YOUNG PEOPLE: INDUSTRIAL TRAINING

The Committee considered a memorandum by the Central Policy Review Staff (CPRS) (E(81) 22) on Unemployment and Young People; and memoranda by the Secretary of State for Employment (E(81) 20) and by the CPRS (E(81) 25) on Industrial Training.

MR IBBS said that, while the CPRS recommendations would contribute to training objectives, their report was concerned primarily with unemployment, and particularly youth unemployment. The proposals they had put forward were designed to have a major impact in reducing the numbers on the unemployment register by incorporating lower benefits and training allowances for young people, to contain the additional costs. The proposals came under three main heads and while they could be adopted separately, there would be advantage in introducing them as a package. First, they recommended a mandatory year of foundation training whereby all those not continuing in full time education after their sixteenth birthday would either go into an approved traineeship or apprenticeship or be required to undergo a training year (TY) incorporating work experience, preparation and day release. This measure could reduce registered unemployment by about 200,000 over and above the expected effect of the Youth Opportunities Programme (YOP), and would cost about £85 million a year net provided it was coupled with a move to lower levels of financial support for young people. TY would have the major presentational advantage of splitting the benefits and burdens of training three ways between young people who would forego wages or benefits at the present level but get guaranteed training; employers who would be required to provide training for sixteen year old recruits, but would not be obliged to recruit them; and the Government which would have to provide for the expansion of YOP-type training. The most contentious feature was that the training would be compulsory but, in the CPRS' view, this was necessary to make a significant impact on youth unemployment, and there were options for making the method of enforcement more palatable. Secondly, they recommended various measures to widen the wages differential between young people and adults with the objective of reversing the present trend whereby young people were to some extent being priced out of employment. Thirdly, they recommended expanded opportunities for community work geared primarily to adult long-term unemployed in areas of high unemployment. They judged that this could be done at significantly lower net cost than the proposed base for the present Community Enterprise Programme.

c. Some of the present training programmes seemed to offer poor value for money and were resented by employers as too bureaucratic. The present draft consultative document on training was unclear on the objectives of programmes, and of the proposed foundation year in particular. Although it might be the case that other countries did more to provide vocational training in basic skills for those over sixteen, it would be unwise to respond to this simply by spending more money. Much more should be done to promote vocational preparation while children were at school and to turn out pupils who were numerate, literate and disciplined in their approach to work. Some progress had been made already in encouraging a more positive attitude to this end by both teachers and employers, and more should be done in this direction.

d. Analysis of the alternatives should give a clearer indication of their value for money and compare the effectiveness of training subsidies with assistance towards capital investment which bring about long-term and lasting job opportunities.

e. It was unsatisfactory that quicker progress could not be made to reform the present system of apprenticeship. The difficulty was that resistance to such changes lay not so much with union leaders as with union members on the shop floor.

f. It was agreed that an 'Open University' type institution for technicians was unnecessary. The Department of Education and Science should be fully involved in the consultations on the introduction of open training and of distance learning techniques.

g. The Government was committed, by the Manifesto, to abolish the earnings rule in due course and this would have the effect of encouraging older people to stay in work. Any reversal of this commitment would be unpopular, although it conflicted with the objectives of encouraging earlier and more flexible retirement to improve the employment opportunities for younger people.

In discussion the following were the main points made -

a. It was generally agreed that there should be no move to compulsory training schemes on the lines proposed by the CPRS. Compulsion would impose undue costs on companies, particularly small firms, and would be resented by many young people who would rather take jobs than go into training, particularly if the allowances were to be less attractive than at present. The right course was to build on a voluntary approach, and further consideration should be given to the proposals in paragraphs 38 and 39 of the CPRS' report. It had to be recognised, however, that employers in this country had a poor record, by comparison with many of their counterparts in other countries, in voluntarily promoting training.

b. The objective should be to move to a system whereby all sixteen year olds either stayed in full-time education, or took a job with or without training schemes attached, or went into full-time training. To make a credible choice it would be necessary to expand the present training opportunities. To curtail the costs of this, and to provide incentives to encourage young people to make sensible choices between the options, the present structure of benefits and training allowances should be reviewed. Although there might prove to be difficulties in practice, there were attractions in principle in the proposals for a Young Person's Benefit which the Home and Social Affairs Committee would be considering shortly. At the same time it would be necessary to consider the level of training allowances and the case for changes in entitlement to unemployment benefits for those under eighteen - although it was noted that changes in the present arrangements could raise difficult questions over contributions. The revised benefits and allowances should not be available to those young people who chose to remain unemployed; and, in that sense, unemployment would not be an option open to them. Such a reform of the structure of benefits and allowances would reinforce voluntary measures to improve training without going to the extent of compulsion.

h. In pursuing initiatives on training, the issues raised by the CPRS on growing unemployment among young people should not be forgotten. With the reduction in manufacturing activities this problem could grow, and it could become increasingly acute in particular areas.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that improvements in industrial training should be on the basis of a voluntary, rather than a mandatory, approach. Further work should be directed to the aim of offering all sixteen year olds the choice of staying in full-time education, or taking a job with or without a training scheme attached, or taking up a full-time training scheme. Under this approach benefit should not be available to those who deliberately chose to remain unemployed. The present structure of benefits and training allowances available to young people should be reviewed with the aim of rationalising them and reducing their costs. The Committee were not yet persuaded that the draft consultative document made a convincing case for the introduction of a foundation year for training in basic skills. Rather than introduce new and expensive schemes, much more should be done while children were still in full-time education to prepare them for employment. The Secretary of State for Employment should now revise his draft consultative document to take account of the points made in the Committee's discussion. The Committee would decide, in the light of this revised document, whether it should be published jointly with the MSC. The Secretary of State for Employment should take into account the outcome of the discussion which the Home and Social Affairs Committee would have shortly on the proposed Young Persons Benefit; consider the implications of this for YOP and other training allowances; and consult with the Secretary of State for Social Services on the possibilities for amending unemployment benefits for young people. The Committee had been able to discuss only some of the main themes in the very detailed memoranda before them. The Secretary of State for Employment should now arrange for further inter-departmental discussion of all the recommendations in the CPRS's report for dealing with unemployment, and circulate a memorandum summarising the main outstanding issues and the alternatives. As a separate matter the Secretary of State for Defence should reach agreement with the Secretary of State for Employment and the Lord President of the Council on his proposals, for the early introduction of a pilot scheme for taking 1,000 YOP trainees into the Army.

The Committee -

1. Invited the Secretary of State for Employment -

i. to circulate as soon as possible, a revised draft of his consultative document on industrial training, taking account of the points made in their discussion;

ii. to circulate at the same time as i. a memorandum on the options for a revised system of benefits and allowances, taking into account the outcome of the forthcoming discussions by the Home and Social Affairs Committee of the memoranda H(80) 81 and H(81) 17 on Young Person's Benefit. The memorandum should also cover the options for reducing training allowances, and, in consultation with the Secretary of State for Social Services, the options for changing unemployment benefit for young people;

iii. to arrange for further inter-departmental discussion of the other proposals for dealing with unemployment in the Central Policy Review Staff's report, E(81) 22, and to report.

2. Invited the Secretary of State for Defence to reach agreement with the Secretary of State for Employment and the Lord President of the Council on the proposal, set out in his letter of 16 February to the Secretary of State for Employment, for a scheme to provide places for 1,000 Youth Opportunity Programme trainees in the Army.

2. THE FAIR WAGES RESOLUTION

CONFIDENTIAL

The Committee considered a memorandum by the Secretary of State for Employment (E(81) 19) on the scope for amending or repealing the Fair Wages Resolution (FWR).

THE SECRETARY OF STATE FOR EMPLOYMENT said that the repeal of the FWR would be consistent with the Government's general policy of leaving pay and conditions to be determined by employers and unions, and with the recent repeal of Schedule 11 of the Employment Protection Act 1975. It would also remove a possible source of increased costs on employers, particularly British Shipbuilders, British Aerospace and public sector industries in Northern Ireland, which had been the subject of a disproportionate number of claims in the past. On the other hand, since the ending of formal pay policies, there had been very few successful claims under the FWR and the practical benefits of repeal were likely to be small. Moreover repeal would be contentious. However, whatever view were taken on the balance of the argument, there was little point in reaching a decision now since the repeal of the FWR would require the denunciation of International Labour Organisation (ILO) Convention 94; and, under present arrangements, notice of denunciation could not be given until September 1982 and repeal could not take effect before September 1983. He recommended that the Committee should, therefore, defer taking a decision until the beginning of 1982 when he would put a further paper to them taking into account any changes in the incidence and effects of FWR claims between now and then.

THE PRIME MINISTER, summing up a short discussion, said that since ILO Convention 94 could not be denounced until September 1982 the Committee would defer a decision on the future of the FWR until the Autumn when the Secretary of State for Employment should circulate a further paper. The operation of Wages Councils raised similar issues and the Secretary of State for Employment should circulate a memorandum, with recommendations, on Wages Councils as soon as possible.

The Committee -

Invited the Secretary of State for Employment to circulate -

- i. In the Autumn, a further memorandum on the future of the Fair Wages Resolution.
- ii. As soon as possible, a memorandum on Wages Councils.

Cabinet Office

25 February 1981