

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

E(81) 12th Meeting

COPY NO 57

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
THURSDAY 26 MARCH 1981 at 11.15 am

PRESENT

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
(In the Chair)

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

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon Peter Walker MP
Minister of Agriculture,
Fisheries and Food

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

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 Sir Ian Gilmour MP
Lord Privy Seal

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 Barney Hayhoe MP
Minister of State
Civil Service Department
(Item 1)

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

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

Mr P Le Cheminant
Mr D J L Moore

CONTENTS

Subject

Item No

1 INDUSTRIAL TRAINING: YOUNG PERSON'S BENEFIT
 2 AID FOR THE FISHING INDUSTRY

1. INDUSTRIAL TRAINING: YOUNG PERSON'S BENEFIT

The Committee considered memoranda by the Secretary of State for Employment on industrial training (E(81) 35) and on benefits and allowances for young people (E(81) 34) and a memorandum by the Central Policy Review Staff (E(81) 36) on the links between these two issues.

THE SECRETARY OF STATE FOR EMPLOYMENT said that he had substantially revised the draft consultative paper on the New Training Initiative (NTI) to reflect points made at the Committee's earlier discussion and by the Manpower Services Commission (MSC). The present draft made no mention of the possibility of universal provision by a target date of 12 months traineeships for young people; it laid emphasis rather on the need for practical improvements and greater flexibility in skill training for young people, including apprenticeships, and in training and retraining opportunities for adults. There was a good chance that the MSC would endorse this approach and, if so, he recommended that the paper should be published jointly by the Government and the MSC in April. This procedure would ensure the formal support of the Trades Union Congress and Confederation of British Industry Commissioners on the MSC and this was important if the objectives of bringing about changes by a voluntary rather than mandatory approach were to be achieved. Comments on the consultative document would be invited by September. He would then make further proposals in the light of those comments and of the further review already in hand of the future of the Industrial Training Boards. In E(81) 34 he had analysed the options for a revised system of benefits and allowances for young people, and in particular the proposals for a Young Persons' Benefit (YB) which was directed to bringing broadly into line the allowances available to 16 and 17 year olds still in full-time education, unemployed, or in training under the Youth Opportunities Programme (YOP). He recommended strongly against the introduction of YB for any or all of these groups. The extension of means-testing to enable more to be paid to those staying in full-time education and less to those who were unemployed would be deeply resented and criticised, particularly at a time of rising youth unemployment and before training measures had developed to the point when it

would be possible realistically to offer all young people an alternative to involuntary unemployment. Unions were already critical of YOP on the grounds that it provided a source of cheap labour. If the YOP allowances were to be further reduced this criticism would be reinforced and employers would offer fewer YOP places on their premises with the result that the Government would have to provide alternative training at an additional cost. He recommended that instead the aim should be to improve the existing structure by asking the MSC to rationalise their various training allowances by considering in the autumn the possibility of lowering further the real value of the YOP allowance, and by inviting the Secretary of State for Social Services to consider the possibility of lowering the rate of unemployment benefit for those under 18 who had paid their national insurance contributions.

In discussion the Committee generally endorsed the approach set out in the draft consultative document on the NTI, subject to the following main points:

a. During the consultative period, and prior to decisions in the autumn, it would be helpful if the Secretary of State for Employment could give further consideration to how voluntary progress towards improving training arrangements might be encouraged and if he could arrange for analysis of the cost-effectiveness of existing training schemes.

b. Greater prominence should be given in the draft to the important point in paragraph 45 that some local organisation was required to deal with the needs arising, and training arrangements, in particular localities. It would also be helpful if the examples of schemes of improved vocational preparation for young people, in Annex 2 of the draft, could be extended to illustrate action taken by an older firm which had hitherto based its training on 7-year apprenticeships.

THE CHANCELLOR OF THE EXCHEQUER, summing up this part of the discussion, said that the Committee welcomed and generally endorsed the draft consultative paper on the NTI and they agreed that the aim should be for the Government to publish it jointly with the MSC. The Secretary of State for Employment

had agreed to take account of the points made in the Committee's discussion, and of any detailed points on the draft which Members of the Committee wished to send him in writing. The Committee agreed that once the consultative paper was published there would be advantage in having it discussed in the National Economic Development Council.

The Committee -

1. Endorsed the recommendations in paragraph 15 of E(81) 33.
2. Invited the Secretary of State for Employment -

i. To take account in revising the draft consultative paper of the points made in their discussion and of any other points of detail which Members of the Committee should now send to him urgently.

ii. To arrange for further consideration to be given to how the voluntary improvement of training arrangements might be encouraged and to the analysis of the cost effectiveness of existing training arrangements.

In further discussion the following were the main points made on the proposals for YB -

c. Under present arrangements, there were strong financial incentives for young people to leave full-time education where, on present weekly rates, their families were eligible for child benefit of £4.75, and either to get YOP traineeships with allowances of £25.50 or to be unemployed with supplementary benefit of £15.25. It was noticeable that even with rising unemployment more children were not choosing to stay in full-time education, and that some able children were withdrawing from Advanced level courses and taking up YOP traineeships which offered a narrower basis of education. Particularly at a time of rising unemployment among the young, there was a strong case for rationalising the various allowances to remove this disincentive to stay in further education. YB would provide a basis for this, and would answer those who regarded it as politically unacceptable that young people should be paid supplementary benefit regardless of the financial circumstances of their family. It would also help meet the commitment in the Manifesto that the Government would 'review the relationship between school, further education and training to see how better use can be made of existing resources'.

d. If YB were to be introduced with the allowances proposed there would be no net increase in public expenditure costs overall and indeed some savings particularly if unemployment were to rise. Without a radical revision of the present allowances, however, there would be substantial public expenditure additions if youth unemployment were to rise higher than currently provided for and existing training guarantees were to be met. It was not necessarily the case that YB would be seen as taking benefits away from the young unemployed and trainees. If it could be presented as part of an imaginative package to improve the quantity and quality of training opportunities for the young at a time of high youth unemployment it might well be broadly acceptable.

e. While there were strong arguments of principle for YB there were severe practical disadvantages in the scheme. There was considerable force in the Secretary of State for Employment's advice that application of YB to YOP allowances would run into severe opposition from the unions. YB was also open to the criticism that it was a re-distributive exercise transferring funds from families with children who were unemployed to families who might be no worse off financially but who had children at school. It could be introduced only in the context of major improvements in training opportunities sufficient to enable the Government to say realistically that no young person need be voluntarily unemployed; but for the time being that was not a practicable option. If YB were to be introduced it would require several hundred additional staff to administer it and it was unlikely that it could be introduced before 1985-86.

f. Further consideration should be given to refusing unemployment benefit to those few young people who were eligible for it and who had turned down suitable training opportunities.

THE CHANCELLOR OF THE EXCHEQUER, summing up this part of the discussion, said that the Committee agreed that, for the reasons put forward by the Secretary of State for Employment and in their discussion, YB should not be introduced. They recognised, however, that although there were severe practical objections to introducing the scheme now it was in many respects attractive in principle. They agreed, therefore, that it should be put on ice rather than written off.

It could be considered again in the autumn, when the Committee would discuss recommendations in the light of consultations on the NTI; if it were then confirmed that it was impracticable to introduce it, it might be possible to reconsider it at some later stage when further advances had been made towards the longer term aims of the NTI and all young people could be offered a realistic alternative to involuntary unemployment. In the meantime the Committee agreed with the Secretary of State for Employment's proposals for reviewing the MSC's training allowances and for considering in the autumn the possibility of lowering further the real value of YOP allowances. The Secretary of State for Social Services had agreed to consider, before the next up-ratings, the possibilities of lowering the rates of supplementary benefit and of unemployment benefit for those under 18, although the Committee took note that his provisional view was that there were severe practical difficulties in making such changes. The Committee had recognised in their discussion that one of the main problems in this area was the relatively high wages paid to young people in employment and there would be an opportunity to discuss this further when the Secretary of State for Employment put forward his forthcoming paper on Wages Councils.

The Committee -

3. Agreed that Young Persons' Benefit should not be introduced now but that it should be reconsidered later on the lines indicated by the Chancellor of the Exchequer in his summing up of their discussion.
4. Invited the Secretary of State for Employment to arrange for a review of the Manpower Services Commission's training allowances and to consider in the autumn the possibility of lowering further the real value of training allowances under the Youth Opportunities Programme.
5. Invited the Secretary of State for Social Services to consider, before the next up-ratings, the possibility of lowering the rates of supplementary benefit and of unemployment benefit for those under 18.

2. AID FOR THE FISHING INDUSTRY

The Committee considered a memorandum by the Minister of Agriculture, Fisheries and Food and the Secretaries of State for Scotland, Wales and Northern Ireland (E(81) 35) on aid for the fishing industry.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD recalled that he had announced in February that, in view of recent developments, he had decided to bring forward the planned review of the financial position of the fishing industry. Because there were so many small units it was difficult to arrive at firm figures but it seemed that, net of subsidies, the industry had suffered a cash outflow of just over £30 million in 1980 and that the comparable figure for the first six months of 1981 was around £26 million. The financial position of the industry was, therefore, seriously deteriorating and unless action were taken to deal with it some firms would collapse. Together with the other Fisheries Ministers, he recommended that £25 million cash should be made available, of which £20 million should be advanced under a Fishing Vessel Support Scheme on the lines of that introduced in August 1980, and £5 million should be in the form of a fuel subsidy in recognition of the relatively high fuel costs of the United Kingdom fishing industry. For administrative reasons the scheme could not be implemented until July, and he recommended that it should then run until March 1982. From his discussions that morning with the French Fisheries Minister he saw no chance of reaching an agreement on the Common Fisheries Policy (CFP) at the meeting of the Fisheries Council on 27 March; moreover, contrary to the impression given earlier in the week at the meeting of Heads of State and Governments, it now seemed unlikely that the French would be ready to reach agreement until after their Presidential Election in May. On this assumption he would wish to announce the new measures of assistance on Monday 30 March, and to inform the European Commission immediately beforehand.

In discussion the following were the main points made -

- a. A fuel subsidy for the fishing industry would provoke claims for similar subsidies to other industries with high fuel costs. It would, therefore, be preferable for all the assistance to be advanced under the Fishing Vessel Support Scheme.

b. It was important to keep the scheme administratively simple and this pointed against basing it on engine power as well as length of vessel. If possible it would be helpful if it could be indicated that the owners would ensure that some of the benefits of the assistance went to the fishermen.

c. In some ports owners appeared to be unduly reliant on the prospect of continuing subsidies and the assistance now proposed should be used to encourage them to adopt a more cooperative attitude towards the CFP. On the other hand, most parts of the industry had come to accept greater competition from overseas fishing fleets and had cooperated with the Government in trying to reach agreement on the CFP. In Scotland, in particular, the leadership in the industry had fought off challenges from their more militant members and if they were to continue to do so it was essential that the Government offered the further financial assistance proposed.

THE CHANCELLOR OF THE EXCHEQUER, summing up the discussion, said that the Committee agreed that there should be further assistance to the fishing industry of £25 million cash and that, to avoid encouraging claims for fuel subsidies in other industries, all of this should be advanced under a Fishing Vessel Support Scheme. Of the £25 million, £6 million should be found by offsetting savings from the programmes of the Fisheries Departments and the balance would be accepted as a claim on the Contingency Reserve. The question of the amount of the claim on the Contingency Reserve to finance the restructuring programme which would be introduced once an agreement on a CFP was reached could be considered later in the light of specific proposals. The Committee agreed that the Ministers of Agriculture, Fisheries and Food should announce the new assistance on Monday 30 March and they noted that he would inform the European Commission immediately before that announcement.

The Committee -

1. Agreed that the Minister of Agriculture, Fisheries and Food should announce on Monday 30 March that further assistance totalling £25 million cash would be made available to the fishing industry in 1981-82 under a Fishing Vessel Support Scheme.
2. Agreed that £6 million of the total assistance of £25 million cash should be found by offsetting savings from the Fisheries Departments' programmes and that £19 million should be accepted as a claim on the Contingency Reserve.