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E(81)77

7 July 1981

COPY NO. 58

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MEASURES AGAINST UNEMPLOYMENT IN 1981-82 AND BEYOND

Memorandum by the Chancellor of the Exchequer

~~EXCH~~
EJJEK

In his memorandum (E(81)74) the Secretary of State for Employment proposes a variety of new measures to reduce the number of registered unemployed.

2. I fully understand why he comes to make these proposals, but I do not believe they strike the right balance. They involve massive additional expenditure (rising to over £1½ billion in each of 1983-84 and 1984-85). Quite apart from the difficulty of finding money on that scale, I do not believe that they propose anything like enough in the way of freeing the labour market - so as to remove the obstacles that stand in the way of more jobs.

Youth Unemployment

3. Of course we must be selective, and concentrate as Cabinet decided on 17 June on youth unemployment. But even on youth unemployment the proposals seem to me to lean far too much on "throwing money" at the problem. I am sure we need to develop a new, coherent philosophy for young people leaving school, to redeploy our very limited resources more effectively, and to improve the workings of the market with a view to minimising the need for State involvement.

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4. So far as expenditure is concerned, we cannot of course, commit ourselves to significant new expenditure outside the context of the public expenditure discussions this autumn. I believe that, ahead of that, we should instruct officials to carry work much further forward on a comprehensive scheme for employing or training unemployed young people on the following basis.

(a) Young people cannot be regarded as entitled to State benefits in their own right: they are essentially trainees, rather than unemployed workers. This points strongly to Option A as discussed in the relevant Manpower Group report.

(b) Appropriate training courses should be developed on the lines proposed by the Secretary of State for Employment.

(c) More attention should be given to ways of engineering a reduction in the relative wages of young people as an incentive to employers to recruit them. In this context, we must be ready to re-examine the previous decision not to exclude young people from the purview of Wages Councils.

(d) We have to seek ways of reducing the cost to public funds: more thought needs to be given to the possibility of securing a financial contribution from employers. At significantly lower pay levels for young people more jobs (or apprenticeships) could be forthcoming.

All these elements are important to a comprehensive approach. Some of them are bound to be regarded with less than enthusiasm by many people in the trade union movement. We must, therefore, be willing to move opinion on that point.

Expenditure Implications

5. We have publicly stated that the public expenditure planning totals are already higher than we would wish. We shall not be able to reduce them if we undertake new commitments involving expenditure on the scale suggested by the Secretary of State for Employment.

6. I accept that it is necessary for us to take an immediate view on the proposals for the Youth Opportunities Programme and related expenditure in 1981-82, and that our decisions on these proposals will have implications for expenditure in 1982-83. I am anxious that longer-term proposals for young people should be further developed by officials on the basis outlined above, but we should not take any expenditure decisions on them - or give any public indication that we have done so - until we can consider them and their prospective cost in the context of our discussion of the public expenditure survey in the autumn. And we must by then be able to make much more progress in the other direction I have suggested.

7. I am clear that we must avoid any commitment on the remaining proposals in E(81)74. If we were to spread our resources as widely as these imply we should not be able to give the major priority, within available resources, to youth unemployment: but that is our declared objective.

8. I shall try to develop my suggestions further when we meet. I entirely endorse the Secretary of State for Employment's judgement about the seriousness of these issues. This is why we must be prepared to look in directions beyond those so far suggested.

G.H.

H.M. Treasury
7 July 1981