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E(81) 25th Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held in the
Prime Minister's room, House of Commons on
WEDNESDAY 15 JULY 1981 at 8.15 pm

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the
Home Department

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 Peter Walker MP
Minister of Agriculture,
Fisheries and Food

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 Francis Pym MP
Chancellor of the Duchy of
Lancaster and Paymaster General

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon Patrick Jenkin MP
Secretary of State for Social Services

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The Rt Hon Mark Carlisle QC MP
Secretary of State for Education
and Science

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

Professor A Walters
Prime Minister's Office

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

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

SUBJECT

MEASURES AGAINST UNEMPLOYMENT IN 1981-82 AND BEYOND

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MEASURES AGAINST UNEMPLOYMENT IN 1981-82 AND BEYOND

THE COMMITTEE considered memoranda on measures against unemployment by the Secretary of State for Employment (E(81) 74), the Secretary of State for Education and Science (E(81) 75), the Central Policy Review Staff (E(81) 76), the Chancellor of the Exchequer (E(81) 77), and by Professor Walters (attached to a letter of 10 July from the Prime Minister's Private Secretary); minutes to the Prime Minister of 13 and 14 July by the Secretary of State for Industry, and of 13 July by the Secretary of State for Defence; and a memorandum by the Secretary of State for Defence, circulated under cover of his Private Secretary's letter of 15 July, on possible measures which the Ministry of Defence could take to reduce youth unemployment. Their discussion and conclusions reached are recorded separately.

Cabinet Office

17 July 1981

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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX
E(81) 25th Meeting Minutes
WEDNESDAY 15 JULY 1981 at 8.15 pm

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MEASURES AGAINST UNEMPLOYMENT IN 1981-82 AND BEYOND

The Committee considered memoranda on measures against unemployment by the Secretary of State for Employment (E(81) 74), the Secretary of State for Education and Science (E(81) 75), the Central Policy Review Staff (E(81) 76), the Chancellor of the Exchequer (E(81) 77), and by Professor Walters (attached to a letter of 10 July from the Prime Minister's Private Secretary); minutes to the Prime Minister of 13 and 14 July by the Secretary of State for Industry, and of 13 July by the Secretary of State for Defence; and a memorandum by the Secretary of State for Defence, circulated under cover of his Private Secretary's letter of 15 July, on possible measures which the Ministry of Defence could take to reduce youth unemployment.

THE SECRETARY OF STATE FOR EMPLOYMENT said that the unemployment total could reach 3 million before long, and was likely to rise above that level at the seasonal peaks over the next year or so; if output grew as expected, there might be a modest fall during 1983, but the total could still be rising in that year. To deal with this situation, he recommended urgent and selective action to deal with three main groups: the young, those nearing retirement, and the long term unemployed. Additional financial provision was necessary in 1981-82 and in 1982-83 to meet existing commitments to provide places on the Youth Opportunities Programme (YOP) and to provide additional places for long term skill training for young people. From September 1983 there should be a comprehensive scheme of training, work experience and community service for unemployed 16 year olds, who would be on the programme for up to 12 months, and in the

meantime YOP should be developed to this end. To encourage earlier retirement, and to reduce the numbers on the unemployment register, the age limit for the Job Release Scheme (JRS) should be reduced from 64 to 60 by February 1982 and increased again to age 64 in March 1983; and those aged 60 or over who had been unemployed and drawing supplementary benefit for more than one year should be enabled to retire on the long term supplementary benefit rate. To help the long term unemployed, more opportunities should be found for voluntary service and the Community Enterprise Programme should be expanded, probably with the additional resources directed to particular groups in particular areas. The gross additional cash costs of these measures would amount to nearly £1200 million in 1982-83 and to about £1550 million in each of the two following years; the net costs to the Public Sector Borrowing Requirement would be around 40 per cent less when account was taken of offsetting savings in social security benefits and for tax receipts. He estimated that the combined effect of these measures would by March 1983 be to lower the unemployment register by 300,000 more than now and, in his judgement, this was the minimum necessary to contain unemployment near its present level. He agreed that carefully selected capital investment would be helpful in further reducing unemployment, but the benefits would be relatively small. He would continue his efforts to bring about a widening in the differential between the pay of the young people and of adults, but it would be some time before any benefits could realistically be expected; relatively few young persons would be affected if they were removed from the scope of Wages Councils and the main impact would be on the disadvantaged. It was essential to implement urgently the action which he had proposed, in order to contain the growth in unemployment and to give hope of bringing about some reduction by 1983, and to respond to the recent riots in some areas. Failure to achieve this objective would, in the long run, be more costly in public expenditure terms and would be damaging to confidence, to the exchange rate and to interest rates. The right course was to take advantage of the productivity improvements which had been made in the life of this Government and to go for growth.

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that full time education had an important part to play in reducing youth unemployment. In the shorter term, the Manpower Services Commission should be persuaded

to make the maximum use of the education service in developing YOP and, in the longer term, full time education should be expanded alongside YOP and any new scheme for young people. There were now signs that more young people were wishing to stay on in full time education and he recommended that additional resources should be made available through the Rate Support Grant to enable local educational authorities to provide more places. To provide for an increase of 10 per cent in those staying on, or about 50,000 young people, would cost around £60 million in 1982-83 rising to £100 million in 1984-85. To remove the present financial incentive on young people to leave school there was a strong case for paying them allowances in line with those given to YOP trainees or supplementary benefit but, in view of the present constraints on public expenditure, he did not wish to press for this change now.

PROFESSOR WALTERS said that while some training schemes for young people were worthwhile the schemes now proposed seemed designed primarily to get young people temporarily off the unemployment register and so were cosmetic in their approach. The economic approach would be to attack the main cause of unemployment: the excessive level of real wages, particularly those paid to young people. He recommended that the present YOP scheme should not be expanded but should be supplemented by a new approach whereby employment was generated by a subsidy, or tax remission scheme, to encourage low wages. One way might be to remit the employer's national insurance contribution for any 16 year old during his first year in the labour market and, perhaps, to pay a small additional grant which would still further reduce the numbers applying for YOP places. To remove the tax on young people taking up their first job could be politically attractive.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that he would like to give more emphasis to additional public sector investment projects which would help the unemployed but, unlike some of the special employment measures, would have a lasting benefit from the creation of wealth and assets. He had in mind more capital investment in housing, improvement of existing housing for re-sale, and schemes for environmental improvement. For some of these schemes, most of the finance could come from the private sector stimulated by a relatively small injection of public funds.

THE SECRETARY OF STATE FOR INDUSTRY said that there was a risk that additional public expenditure could lead, through higher taxation and borrowing, to the loss of more jobs than were created. If, however, there were to be additional or alternative expenditure, he agreed with the Secretary of State for the Environment that the aim should be both to generate a net increase in employment and to provide a useful stock of productive assets. He would be willing to make it a condition of the provision of launch aid for eg new aircraft and engines, or of public procurement support, that the beneficiaries should maintain apprenticeship programmes at a satisfactory level and participate in the provision of YOP places. He recommended that there should be a series of small meetings between Ministers and individual business representatives, journalists and interviewers to persuade them that unemployment could be reduced if there were higher productivity and hence higher profits and more investment.

THE CHANCELLOR OF THE EXCHEQUER said that he accepted that additional financial provision should be made in 1981-82, and consequently in 1982-83 to enable the present commitments to provide places on YOP to be met and to provide for further places for skill training. It would, however, be premature to take decisions now on the Secretary of State for Employment's total additional bids for 1982-83 and for the later years. The right course was to examine them further in the context of the Cabinet's discussion of the 1981 Public Expenditure Survey when it would be possible to evaluate them against other competing claims; the total of additional bids for 1982-83, including those for the special employment measures, was in the order of £6 billion. This would give time for further study of the options for longer-term measures to reduce unemployment, including those put forward by Professor Walters for encouraging lower wages for young people, those for employment generating investment projects, and those proposed by the Secretary of State for Education. It would also be necessary to consider the implications of any additional expenditure on employment measures for the possibilities, which would also help to stimulate employment, of reducing taxation and national insurance contributions. In his judgement, an announcement now of a major new and expensive package of measures in advance of the Government's decisions on the 1981 Public Expenditure Survey, would severely damage the confidence of the financial markets and would add to the present pressure to increase interest rates.

THE SECRETARY OF STATE FOR DEFENCE said that it would be possible for the Ministry of Defence to provide training or employment for up to 15,000 people a year at a total cost over three years of about £75 million. This would be by an immediate increase in recruitment for the Regular and Reserve Forces; the introduction of short term service engagements for an initial term of 9 months; the provision of short adventure training courses giving about 11,000 people each a three week course over a 12 month period; and an intake beyond Ministry of Defence needs, of civilian apprentices. The apprentices could be recruited from all over the country, and in particular from areas of high unemployment, for training at suitable Ministry of Defence establishments, probably Devonport and Rosyth. It would be essential for these trainees not to be included in the totals of civil servants.

In discussion there was general agreement that -

a. Additional provision should be made in 1981-82 and 1982-83 to enable the present commitments on YOP places to be met, for the necessary additional posts in the Careers Service, and for additional places for long-term skill training.

b. Those who were 60 or over and who had been unemployed and drawing supplementary benefit for more than one year should be made eligible for the long-term supplementary benefit rate. This would take another 45,000 people a year off the register at a cost of around £20-25 million a year. The Secretary of State for Social Services should arrange to give effect to the change by Order.

In further discussion the following points were made -

c. Further consideration should be given to the arrangements for reducing unemployment among young people in the longer term. YOP had only had limited success so far, and it was disappointing to young people if after a year in training they became unemployed. It would be much better if they could be given the hope of a real long term job. This pointed to a package which would include

not only training schemes, on the lines recommended by the Secretary of State for Employment, but provision for employment-generating capital investment and, perhaps for the introduction of a scheme on the lines of that proposed by Professor Walters. In addition to the public sector investment already suggested, a number of Departments should be able to put forward capital investment schemes which would replace current expenditure within PES totals and which would be beneficial to employment, and also schemes which would promote private sector investment in, for example, energy conservation projects. If decisions were taken to go ahead with such schemes, it would be important to ensure that they provided for productive investment as well as for environmental schemes.

d. On one argument the proposed change to JRS would be very expensive and particularly so if the age limit did not revert to 64 in March 1983. On the other hand, JRS had the advantage that it provided permanent job opportunities which would benefit not only 16 years olds but also those slightly older and to young married people.

e. In further examination of the proposals for expanding CEP, consideration should be given to the possibility of offering the unions a choice between a programme on which people would be paid the rate for the job and a much bigger programme under which they would be paid a lower rate representing benefit level plus a premium.

THE PRIME MINISTER, summing up the discussion, said that the Committee accepted the Secretary of State for Employment's proposals for the additional YOP places necessary to meet present commitments, for increasing support for long term skill training, and for allowing people aged 60 or over who were unemployed and had drawn supplementary benefit for more than one year, to draw the long term supplementary benefit rate with the result that they would be taken off the unemployment register at a relatively small cost. They had considered a wide variety of proposals for longer term measures to deal with unemployment, particularly among young people. They had not reached decisions on these proposals and were very conscious of the problems outlined by the Chancellor of the Exchequer. Nevertheless, they were attracted by the idea that, should any further measures be decided upon,

they might with advantage include measures going beyond those proposed by the Secretary of State for Employment. A number of ~~hostilities~~ POSSIBILITIES had been raised both in the papers before the Commmittee and in discussion which merited further consideration and which might create both useful assets and real long term jobs. She would arrange for a group of the Ministers most directly concerned to consider further all the proposals put forward. Each Minister should also consider further, before the Cabinet met to discuss the 1981 Public Expenditure Survey, whether there was scope for changing priorities within their proposed programmes to give greater weight to employment generating projects. The Committee were attracted in principle by the proposals put forward by the Secretary of State for Defence. They had not, however, had time to consider these proposals in detail, and since the cost per trainee or employee of some of his proposals could turn out to be relatively high, the Secretary of State for Defence should consider them further with the Secretary of State for Employment and the Chief Secretary, Treasury.

The Committee -

1. Approved the Secretary of State for Employment's proposals in E(81) 74 for additional financial provision in 1981-82 and 1982-83 for the expansion of the Youth Opportunities Programme, (paragraph 26.1), for increasing support for long term skill training, (26.2) and for providing for the long term unemployed aged over 60 who had been drawing supplementary benefit for more than one year to be eligible for the long term supplementary benefit rate (paragraph 26.4).

2. Invited the Secretary of State for Defence to discuss further with the Secretary of State for Employment and the Chief Secretary, Treasury, the proposals set out in his paper attached to his Private Secretary's letter of 15 July.

3. Took note that the Prime Minister would arrange for a group of Ministers to consider further the other measures to reduce unemployment which had been proposed in the memoranda circulated to them and raised in their discussion, and to report.

Cabinet Office

17 July 1981