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E(A)(83) 1st Meeting

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CABINET

MINISTERIAL STEERING COMMITTEE ON ECONOMIC STRATEGY

SUB-COMMITTEE ON ECONOMIC AFFAIRS

MINUTES of a Meeting held at
10 Downing Street on
WEDNESDAY 29 JUNE 1983 at 11.00 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer

The Rt Hon James Prior MP
Secretary of State for
Northern Ireland

The Rt Hon Peter Walker MP
Secretary of State for Energy

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon Patrick Jenkin MP
Secretary of State for the Environment

The Rt Hon Norman Tebbit MP
Secretary of State for Employment

The Rt Hon Cecil Parkinson MP
Secretary of State for Trade and
Industry

The Rt Hon Lord Cockfield
Chancellor of the Duchy
of Lancaster

The Rt Hon Tom King MP
Secretary of State for Transport

The Rt Hon Michael Jopling MP
Minister of Agriculture,
Fisheries and Food

The Rt Hon Peter Rees QC MP
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir Keith Joseph MP
Secretary of State for Education
and Science

Mr Allan Stewart MP
Parliamentary Under-Secretary
of State, Scottish Office

Mr J Sparrow
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P L Gregson
Mr M S Buckley

SUBJECT

ANNUAL REVIEW OF SPECIAL EMPLOYMENT MEASURES 1984-85

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ANNUAL REVIEW OF SPECIAL EMPLOYMENT MEASURES 1984-85

The Sub-Committee considered a memorandum by the Secretary of State for Employment (E(A)(83) 2) on the special employment measures (SEMs) in 1984-85. They also had before them a minute of 27 June from the Chief Secretary, Treasury to the Prime Minister on the same subject.

THE SECRETARY OF STATE FOR EMPLOYMENT said that on present plans some £2.2 billion would be spent on the SEMs in 1984-85. About one half of this would be spent on the Youth Training Scheme (YTS) and about £0.6 billion on the Community Programme (CP). It was estimated that the SEMs were currently keeping about 350,000 people off the unemployment register. This figure would rise to about 600,000 in the spring of 1984. Even so, unemployment might still rise at about 5 to 10,000 a month. It would be possible to reduce this figure, and perhaps even to bring about a reduction in the level of unemployment, by a major expansion of the CP and other SEMs. But this would be very expensive; and he could not recommend it to his colleagues. Instead, he intended to set in hand a review of the YTS and the CP and to consult his colleagues further about those schemes in the autumn. He proposed to raise the average wage limit under the CP from £60 to £62 a week with effect from October 1983: this was necessary in order to maintain the attractiveness of the CP to sponsors. He also proposed to remove immediately the limit on the maximum individual wage which could be paid under the CP: this was a bureaucratic restriction which served no purpose.

He had decided not to raise the allowance under the YTS of £25 a week; this decision had already been announced. The Enterprise Allowance Scheme (EAS) was currently operating on an experimental basis in five pilot areas. It had been announced in the Budget that the Scheme would be extended nationwide from 1 August 1983 to 31 March 1984. He proposed that the EAS, which had been explicitly mentioned in the Government's Election Manifesto, should be made available nationwide, on a cash-limited basis, in 1984-85. This would require an additional £46 million public expenditure provision in 1984-85 (£31 million net, after taking account of savings on social security benefits). He also proposed to make additional provision for labour mobility schemes; to extend the Job

Splitting Scheme to 31 March 1985; and to continue the existing level of public expenditure provision for the Voluntary Projects Programme into 1984-85. These proposals would cost a further £8 million gross. Against the total gross cost of £54 million should be set reduced requirements of £33 million. The total net additional staff requirement of his proposals would be of the order of 100. He proposed no change in the Young Workers' Scheme (YWS) or Community Industry; and the Government's previous decision to close the Temporary Short-Time Working Compensation Scheme in March, 1984 should be maintained.

The development of the Technical and Vocational Education Initiative (TVEI), which had been announced by the Prime Minister in November 1982, was important to the Government's training and education strategy. The Chairman of the Manpower Services Commission (MSC) had identified savings of £14 million in 1984-85 and £20 million a year thereafter from changes in the Employment Service and adult training. He proposed that these savings should be applied to an extension of the TVEI. The precise form of the expansion would be a matter for consultation with the MSC and the local authority associations. The extension should apply to Scotland. If his colleagues agreed, he proposed to write immediately to the Chairman of the MSC to indicate that the Government would be happy to see the extension launched on the understanding that the MSC was able to find the resources.

THE CHIEF SECRETARY, TREASURY said that the proposals in E(A)(83) 2 should be discussed, at least in the first instance, between the Secretary of State for Employment and himself, and in the context of the current Public Expenditure Survey. It was unnecessary to take decisions yet on most of the proposals; in particular, it would be premature to take a decisions on the proposed extension of the EAS after March, 1984 until a fuller assessment of the Scheme's cost-effectiveness was available. Nor was he convinced that the average wage limit under the CP should be increased. Finally, he could not accept that reduced requirements for demand-determined services were available to increase expenditure elsewhere. Bids for new expenditure must be offset by policy savings on cash-limited spending.

In discussion, there was general support for the proposed expansion of the TVEI. The proposed basis of 14 pilot projects was manifestly inadequate. The following main points were also made.

- a. It was arguable that there were too many SEMs. It would be better to concentrate resources on a smaller number of measures - in particular, those which were especially cost-effective in reducing the numbers registered as unemployed, or which had longer-term benefits.
- b. In this context, it was suggested that the cost-effectiveness of the YWS was open to question: the first-year net cost per person off the unemployment register was markedly higher than that of other SEMs. On the other hand, it was argue' that this criterion could be misleading; and that the aim of the YWS was not only to reduce registered unemployment but also to reduce the level of wages paid to young people and so improve their prospects of genuine employment. It was unfortunate that the operation of certain Wages Councils and the Agricultural Wages Boards tended in a different direction. Other countries appeared to be able to pay their young people more realistic wages without breaching their international obligations.
- c. The Government should take more credit for measures promoting early retirement, such as the Job Release Scheme and the provision whereby the unemployed over 60 were entitled immediately to the long-term rate of supplementary benefit. There was much popular support for early retirement as a means of dealing with high unemployment. On the other hand, there were dangers in going too far in this direction. Current demographic trends meant that in the later years of this century a smaller population of working age would have to bear the burden of an increasing number of pensioners. Ministers should draw attention to the implications of this fact in public speeches.

d. It was not clear that it would be desirable to increase the average wage limit under the CP as proposed in E(A)(83) 2. On the one hand, it was argued that it was difficult for sponsors to work within the existing limit; and that many of them therefore had to look for additional or alternative sources of funds, such as the Urban Programme. On the other hand, it was argued that there was no apparent lack of projects with the existing limit; and that the effect of raising it would be to reduce the number of places that could be provided within agreed expenditure provision. The problem was aggravated by the reluctance of trade unions to agree that places on the CP should be part-time in order to keep down unit costs. Moreover, the trade unions sometimes insisted that those offered places on the CP should become trade union members, whether they wished to or not; it was alleged that for this reason the MSC refused to approve projects which did not make trade union membership a condition.

THE PRIME MINISTER, summing up the discussion, said that the Sub-Committee approved the proposals in E(A)(83) 2 relating to the Technical and Vocational Education Initiative. They also welcomed the intention of the Secretary of State for Employment to put in hand reviews of the Youth Training Scheme and the Community Programme. He should discuss the remaining proposals with the Chief Secretary, Treasury, consulting other Ministers as necessary, in the context of the 1983 Public Expenditure Survey. He should consider whether it would be possible, by attaching conditions to our adherence to the relevant conventions of the International Labour Organisation, to make it easier to reduce the relative level of wages paid to young people and so improve their prospects of employment. He should also investigate the practice of the Manpower Services Commission regarding the imposition of trade union membership as a condition of approval for projects under the Community Programme, and whether anything could be done to reduce trade union opposition to the provision of part-time employment under the Programme.

The Sub-Committee -

1. Approved the proposals in E(A)(83) 2 relating to the Technical and Vocational Education Initiative.

2. Invited the Secretary of State for Employment:

(i) to bring forward proposals in due course on the future development of the Youth Training Scheme and the Community Programme;

(ii) to discuss with the Chief Secretary, Treasury, and other Ministers as necessary, the remaining proposals in E(A)(83) 2 in the context of the 1983 Public Expenditure Survey;

(iii) to consider the other matters mentioned by the Prime Minister in her summing up; and to report.

Cabinet Office

29 June 1983



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PRIME MINISTER

cc - ~~Mr Gregson~~
Mr Buckley.

E(A) COMMITTEE; 29 JUNE 1983: PAPER BY THE SECRETARY OF STATE FOR EMPLOYMENT

I think it might be helpful if I set out in advance my reactions to Norman Tebbit's paper on the annual review of special employment measures (E(A)(83)2).

First, I do not think it is necessary to take a decision now on the future of the Enterprise Allowance after March 1984. I believe we should wait until we have a full assessment of the Scheme's cost effectiveness, and some evidence of how the extension announced in the last Budget is going.

Secondly, I would not accept that savings on demand-determined special measures are available to be spent on others. Such savings are by nature uncertain. But, more important, we are due next month to have a first discussion of the background to this year's Public Expenditure Survey. It is already apparent that difficult decisions may be necessary to do no more than remain within existing plans. This implies, at the very least, that any bids for new expenditure which are accepted ought to be offset by policy savings on cash-limited spending rather than by reduced requirements

Against this background, I have the following comments on individual items in Norman Tebbit's paper:-

- (i) Enterprise Allowance. Leaving aside the question of when a decision should be taken, it is unlikely that an expansion on the scale envisaged would be justified. I am especially doubtful about increasing the level of the allowance when the effect might merely be to stimulate demand for places which cannot be met.

- (ii) Job-Splitting Scheme. All the signs are that this experimental scheme has failed to take off. I see little point in extending its life after March 1984, particularly since by then the part-time Job Release Scheme will be in operation.
- (iii) Voluntary Projects Programme. There may be a case for continuing this because of its popularity with the voluntary sector. But I think we should spend no more next year than is likely to be spent in 1983-84 around £5 million.
- (iv) Community Programme. I very much agree that there should be no increase in the number of places. However, I am not convinced that the average wage limit should be increased when there are signs that the Programme might be going ahead faster than the provision for it in 1983-84 allows.

On the Technical and Vocational Education Initiative I am sympathetic to Norman Tebbit's proposal, but as the proposal is that the extension should be financed from policy savings in other parts of the MSC budget, I should prefer to examine these savings more closely when we look at the MSC in the Public Expenditure Survey. I support the rest of Norman's proposals in principle, subject to some detailed points in respect of Community Industry.

I am copying this minute to other members of E(A),

AK

PETER REES
27 JUNE 1983