

SUBJECT

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Note of a Meeting held by the Prime Minister at 10 Downing Street
on 13 September 1982 to discuss some aspects of Government Strategy

Those present

The Prime Minister

The Secretary of State for Education and Science	Professor Alan Walters 10 Downing Street
The Secretary of State for Energy	Mr David Wolfson 10 Downing Street
Mr John Wakeham Minister of State, Treasury	Mr John Sparrow Central Policy Review Staff
Mr John MacGregor Parliamentary Under-Secretary Department of Industry	Mr A M Bailey "
Mr John Selwyn Gummer Whips Office	Mr G Hart " Miss E Mackay "
Mr David Young Manpower Services Commission	Mr C B B Beauman " Mr M J Elliott "
Mr Ferdinand Mount No 10 Policy Unit	

The Prime Minister welcomed those attending the meeting. The strategic problems of the Government were not what to do, but how it should be done. The discussion should concentrate on ways of curing unemployment (a subject on which both the CPRS and the No 10 Policy Unit had recently completed reports). There were a number of blockages to the creation of new jobs in the economy which it was most important to identify and remove. Some of those blockages were non-financial and related to over-regulation; others were more directly concerned with levels of taxation and benefit. The Government had introduced a Business Start-Up Scheme to encourage the provision of equity capital, but there was evidence that its implementation had been so hedged around with restrictions that it was not making the intended contribution; the Treasury was looking into this in consultation with the Department of Industry. There were similar problems with the scheme to encourage private housebuilding for rent.

2. Our social security system represented a major disincentive to the creation of new jobs, by making the difference between wages and what it was possible to receive in benefit too small. Few if any other

CONFIDENTIAL

CONFIDENTIAL

countries provided such a generous or comprehensive safety net as our supplementary benefit system. Many of those drawing benefit already worked in the black economy (on which the CPRS had also produced a report). There was a need for people to perform many jobs for the benefit of the community, and it was important to explore whether benefit might be payable only to those who accepted offers of such work. Other countries had developed such schemes with some success. Jobs, especially for young people, would be created in greater numbers if the differential between youth and adult wages were greater - this was seen in West Germany. Wages Councils and trade unions, with the unthinking co-operation of some employers, were impediments to the development of lower youth wages.

3. It was essential that the message that lower real pay would create more jobs was put across to the country; the Government's supporters had an important role to play here. But it must also be remembered that lower unit labour costs were only half the story; industry's products must also be made more competitive.

4. In discussion, the following were among the main points made:-

- (a) The black economy might be reduced by granting a tax allowance for home improvement. This would require vouchers which would be traceable for VAT, and would thus bring some black economy service workers into the white economy. But the Exchequer effects of such a scheme would have to be carefully calculated, and it might be that black economy workers would only offer to undertake certain work if no allowance were claimed. There might be additional drawbacks if the effect of the allowance were to encourage over-investment in property to the detriment of industry. On the other hand, it was recognized that there was substantial scope for households to offer low paid service work, and it was noted that some agencies were now specializing in providing that work. But there was some evidence that the Inland Revenue and DHSS had not made life easy for these schemes; more should be done to exploit their potential.
- (b) The Youth Training Scheme had already gone some way to depressing the level of young people's wages. There was evidence that many firms were starting to negotiate those wages down to the £25 per week

CONFIDENTIAL

Youth Training allowance, and that wages paid to young workers after they left the Youth Training Scheme (YTS) would be correspondingly lower. YTS also represented the best opportunity of shaking up the apprenticeship system. The Manpower Services Commission (MSC) was committed to reforms here but there might be difficulty in convincing union members on the shop floor of the benefits. The Government should make a determined effort to secure progress in this area.

- (c) There might be scope for introducing changes to the benefit system, perhaps by capping benefit by reference to the level of wages last received. It might also be possible to increase incentives to work by increasing tax thresholds and the levels of child benefit (though these would be expensive) and Family Income Supplement. It was noted that only about 600,000 of the unemployed had dependent children. A large majority of the unemployed had no dependents; although their benefits were not high in relation to prevailing wages, there was evidence that the level of benefits influenced their job seeking behaviour. Changing the benefits so as to encourage the young and single to seek work more actively could not be easily stigmatized as being "unfair". This suggested that any reduction in the level of benefit should be targeted at young people without dependents.
- (d) There was a good case for tightening the rules for receiving supplementary benefit, especially for the young, eg by adopting a less selective definition of "suitable work" and by requiring evidence of active job seeking. Such changes would address the fact that young unemployed appeared to search for jobs less actively than older workers. There were attractions, especially with regard to the young, in the American idea of "workfare" whereby benefit recipients were expected to work enough hours to "earn" their benefits. Some would claim that this would amount to "compulsion", but those concerned would still have a choice whether to work or not, and the benefit system had never been intended to give an unqualified right to cash in all circumstances. There were, however, formidable difficulties in moving towards this from our present position, as experience with the Budget community work proposal had shown. The task of organization would be a large and expensive one.

CONFIDENTIAL

The local authorities would be in the best position to provide such jobs, but their co-operation in such a scheme could not be guaranteed.

- (e) Lowering the retirement age might release many jobs, but would, in all likelihood, place an intolerable burden on the working population, unless early retirement could be linked with a reduced pension. On the other hand, many of those approaching retirement might be interested in sharing their jobs, and it would be useful to discover if the Job Release Scheme or some other special employment measure could encourage more flexible arrangements. A scheme of early retirement and lower retirement pensions might be specially useful in helping to get over the "demographic hump" (caused by the unusually large excess of young workers over older workers approaching retirement). Reform of the system of occupational pensions might be relevant to the development of such a policy.
- (f) There was also concern about the unemployed, now in their twenties, who had largely missed the opportunities provided by special employment measures and training schemes. It might be possible to develop a voucher system for training on a part-loan, part-grant basis, designed to encourage the development and increased use of training provision in the private sector. The Manpower Services Commission were looking at such a proposal.
- (g) The education system might play a role in creating an enterprise minded society in which the creation of jobs and wealth would be promoted, and in encouraging individual responsibility. Standards of education and the employability of those who completed it needed constant attention. The Department of Education and Science would shortly be bringing forward proposals for the introduction of a voucher scheme in schools, and student loans in higher education. (The MSC scheme for training vouchers could fit in well with this approach.) It was also important to look at the position of teachers. This might involve putting them on 5-year contracts and giving real responsibility, coupled with clear duties to head teachers. And there was a need to consider what children were taught; the case for a core curriculum, previously rejected, might need to be reviewed. The case for increased parental control and more autonomy for head teachers, when coupled with the strong central interest in strategic issues, pointed to some structural redrawing

CONFIDENTIAL

of the responsibilities of central Government, local authorities and teaching staff; it was vital that initiatives in this field were not stifled by educational authorities or the teachers' unions.

- (h) There was a reservoir of training and educational skills in the armed forces that should be tapped, perhaps by a voluntary scheme for young people to be trained in the armed forces for a year or fifteen months. Other European countries used their armed forces in this way, and the potential for such a scheme here should be examined. But the skills taught to the young people taking part would have to be carefully identified, and there might be some opposition to such a programme from the forces themselves.
- (i) There was scope for further work on increasing share ownership; this had been somewhat discredited by the earlier share option scheme for management, but the aim should be to encourage share issues as incentives to employees.
- (j) There was some concern that parts of the voluntary sector had lost touch with the tenets of voluntarism. Those who had the responsibility for solving "problems" too often created additional ones, and removed the individual's ability to run his life in a responsible and confident way. The work of the CPRS on family policy would include an examination of the growth of professionalism especially in the public services. There might be scope here for an initiative designed to restore consumer choice to individuals in some key areas of the public sector.

5. In conclusion, the Prime Minister asked those present to note the points that had been made and to pursue work on practical proposals to remove impediments to a wealth and employment creating society. She would herself follow up the proposal to use the armed forces in a training capacity. The CPRS, as a follow-up to its unemployment study, should now develop proposals for reforming the system of benefits for unemployed people, especially the young, so as to do more to encourage employment. It would be particularly useful to draw on international experience.