

CONFIDENTIAL

14 September 1982

ALAN WALTERS

PRIME MINISTER

Prime Minister ①  
 Agree to X?  
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 Yes + only  
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THE MINFORD/SMITH UNEMPLOYMENT STUDY

This is a good report. It contains a number of specific proposals, most of them important but by no means comprehensive, which are in principle feasible. It also examines the quantitative implications and so gives a standard by which their efficacy can be judged. It is a useful companion piece to the CPRS Study, and you will notice that it differs from their recommendations in certain respects. But the general thrust of both studies is the same.

There will no doubt be enormous dissension about the efficacy and quantitative effects of the Minford/Smith proposed measures. I think you should interpret the results only in terms of broad orders of magnitude. I do not think any great precision would be claimed. But fortunately precision is not necessary. Even if you divide the results by two or three, you get numbers sufficiently large to illuminate the policy decisions.

More important than the numerical estimates, I believe that the measures proposed are right and just in their own terms. For example, it seems to me right that there should be a 'cap' or ceiling on benefits related to previous earnings, combined with, of course, the other measures such as the increased child benefit and associated increases in thresholds. I suspect that the CPRS and many others will object, because it will be argued that the 'cap' will have little effect since it will mainly apply to married men with some family. This may or may not be the case. (Minford argues it would be much more widespread.) But the main point is that surely the principle is correct. It is a criterion which is widely recognised in all other countries - the only exception, tellingly, is Belgium.

Minford has not suggested an explicit order of priority in the list of measures. This was probably due to the fact that it is difficult accurately to foretell what the political and administrative problems will be.

/I suggest,

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(1) I suggest, however, that there is a natural ordering which comes from these proposals. First, it indicates the great importance of putting the raising of the thresholds as a first priority in our Budget process. At present the thresholds tend to be the residual legatee after all the other claims on the Budget have been met. I believe it is of great importance that in 1983 we put the thresholds first.

(2) The second priority seems to be the increase in the stringency standards for issuing benefits. I believe that this can be done without legislation by Administrative Order of the Secretary of State. It may be a good idea to start first with the young. I suspect this would be politically acceptable. The details, however, together with the proposed cap, will have to be discussed with DHSS.

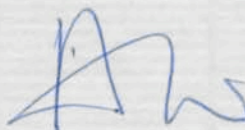
The development of the job pool idea is also useful; we could proceed in stages to the Minford suggestion of extending it to those who have been unemployed over six months. I suspect, however, that a "Workfare" scheme will take much longer and is of less urgency. But it is worthwhile making a move, especially again for the young, where there is likely to be political support for such ideas.

On union power, wages councils etc, I take it that we are moving as fast as politically we can. I suspect that we may get more public opinion behind us if the unions behave with unreasonable militancy during the winter. But I agree, little more can be done there.

The abolition of means-tested benefits-in-kind and replacement by a more generous FIS, is again something which we must consider in the much longer term. But it is worth setting in motion the machinery now. We all know it turns very slowly.

x I suggest that colleagues should meet soon after your return to reach preliminary conclusions on the basis both of the CPRS Report and the Minford Report. But meanwhile, during your absence, I suggest that distribution of the Report should be restricted to the Chancellor, Mr. Tebbit, Mr. Sparrow and the Home Secretary. This limited distribution should minimise risk of leaks.

14 September 1982

  
ALAN WALTERS

MR. BUTLER

NUMBER TEN UNEMPLOYMENT STUDY

1. The attached study was drafted by Professor Minford with my assistance under Alan Walters' direction. Whilst originally intended to be complementary to that of CPRS from a European standpoint, it has now been developed so as to provide some proposals of a somewhat novel and radical flavour, which have been quantified. I attach two copies of the main report and one set of annexes.
2. The proposals made are:
  - (a) for a 'cap' or ceiling on unemployment and associated benefits set at 70% of previous net earnings; *Wage - stop*
  - (b) the introduction of the 'workfare' concept whereby benefits are linked to community work;
  - (c) the raising of tax thresholds by 40% and child benefits by £2.15 per child;
  - (d) the abolition of means tested benefits-in-kind and their replacement by a more generous Family Income Supplement;
  - (e) the restoration of common law to all union actions, and the rendering of the 'closed shop' system null and void;
  - (f) the establishment of a Labour Monopolies Commission;
  - (g) the abolition of Wages Councils, the de-control of rents and the introduction of a regional employment subsidy.

3. The estimated economic effects of the proposals are:

(a) the Cap and related tax initiatives should reduce unemployment by 0.9 million over 5 years;

(b) the labour market monopoly proposals should reduce unemployment by around one million over 10 years;

(c) the net Exchequer costs would be around £2½bn in 1983/4, which are within reach without jeopardising the medium term financial strategy.

4. The Introduction and Summary section at the beginning - pages 1-11 - might be regarded as essential reading, along with the more important sections and summaries at pages 46/47, 62/66, 70/75, 93/97, 107/110, 132/135, 136/138 and 168/169. The Annexes provide the supporting international, historical, legal and technical material.

5. I believe Mr. Walters, who also has a copy for this weekend, may wish to add his own commentary on his return; this study has not been distributed elsewhere.

AS

10 September 1982

ADRIAN SMITH

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10 DOWNING STREET

*From the Private Secretary*

15 September 1982

*Dear John,*

The Minford/Smith Unemployment Study

I attach a copy of the study on unemployment which has just been completed by Professor Minford and Adrian Smith here.

The Prime Minister will wish to discuss the conclusions of the study with a number of her colleagues after her return from the Far East.

I am sending a copy of this letter and enclosure to John Halliday (Home Office), Barnaby Shaw (Department of Employment) and Gerry Spence (CPRS). The Prime Minister has asked that these copies of the study do not go beyond the Private Offices of the Ministers concerned.

*Yours sincerely,*

*Michael Scholar*

John Kerr, Esq.,  
H.M. Treasury.

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