



SECRET

Simply reducing unit labour costs in the

real wages. The former can be achieved by increasing productivity.

MT.

P.0854

MR SCHOLAR

REPORTS ON UNEMPLOYMENT BY CPRS AND NO 10 POLICY UNIT: FOLLOW UP

The Prime Minister will wish to consider how best to follow up the reports on unemployment by the CPRS and No 10 Policy Unit. She had an informal discussion of many of the points raised in the two reports on 13 September, but the three senior Ministers most closely concerned (the Chancellor of the Exchequer, and the Secretaries of State for Social Services and Employment) were not present. Both reports have been given only a very restricted circulation (especially restricted in the case of the No 10 report), of which you have the details.

Content of the reports

2. The coverage of the reports, which overlap in parts, can be summarised briefly as follows:

i. both reports stress the need to reduce real wages as a means of increasing employment

(this is the essence of the No 10 report; the CPRS report ranges more widely but has this as a major theme);

ii. both reports discuss changes in benefits and taxation in order to facilitate lower real wages

(in particular both reports suggest some "capping" of unemployment benefit; in this and in other proposals in this area, the No 10 report is more radical and ambitious);

iii. both reports also identify union power as an obstacle to reducing real wages

(the CPRS report places more emphasis on decentralisation, privatisation and competition policy so as to reduce the significance of the unionised sector



SECRET

of the economy; the No 10 report urges further major industrial relations legislation to break union power);

iv. both reports discuss various measures of a more peripheral and miscellaneous kind (eg the abolition of Wages Councils, and changes in housing policy to improve labour mobility; the CPRS report contains a very long list of possible measures);

v. both reports contain some proposals relevant to early economic decisions (the No 10 report contains a precise proposal about tax thresholds and child benefits in 1985; the CPRS report discusses the relative merits of reducing the National Insurance Surcharge, lowering direct taxes, and labour intensive public works);

Timing

3. Except in relation to v. above, neither report is clear about the timing of implementation of the various proposals. Broadly however the proposals might be divided into three categories:

a. proposals which must be considered in the context of forthcoming discussions about public expenditure and the next budget (eg changes in tax thresholds and labour intensive public works);

b. proposals which cannot be implemented before the next General Election (eg further radical industrial relations legislation of the kind proposed in the No 10 report, or a major restructuring of benefits);

c. proposals of more flexible timing (eg changes in benefit levels or rules which could be implemented before the Election, but do not have to be considered in the context of immediate public expenditure and budget decisions, unless Ministers so wish).

Sensitivity

4. It goes without saying that both reports are sensitive in varying degrees. This sensitivity extends not just to specific proposals about taxation or benefit levels but also the general strategy of reducing real wages which will need careful handling politically and presentationally.



SECRET

Next steps

5. Some of the issues raised in the reports, eg changes in taxation, will fall to be discussed by the Prime Minister and the Chancellor of the Exchequer in the normal way. The Prime Minister will however wish to consider how to take further the various detailed proposals which will not be automatically subsumed in the pre-budget discussions. It would seem that the most useful next step might be for the Prime Minister to have an informal talk with the three senior Ministers most closely concerned with the matters discussed in the two reports, ie the Chancellor of the Exchequer and the Secretaries of State for Social Services and Employment. This discussion might be directed to the following points:

- i. the political handling of the strategy for reducing real wages and in particular:
 - a. what particular proposals could and should be pursued in the context of the next budget and before the Election;
 - b. what other matters might be pursued with a view to implementation after the Election;
- ii. depending on i., how best to carry forward the matters on which action is required and in particular:
 - in relation to a., whether the task should be given in the first instance to the lead Minister (eg in the case of changes in benefits to the Secretary of State for Social Services, in consultation with the Chancellor of the Exchequer and the Secretary of State for Employment);
 - in relation to b., whether some or all of the matters to be pursued after the Election should be studied under Party rather than Government auspices.

SECRET



SECRET

6. If the Prime Minister decides to have a preliminary meeting of this kind with the other three senior Ministers, it would be useful for her and them to have a checklist of the proposals in both reports to work through.

PLG

P L GREGSON

20 September 1982

CONFIDENTIAL

SECRET