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Prime MinisterTreasury Chambers, Parliament Street, SW1P 3AG Mes 12/10
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PRIME MINISTER

GOVERNMENT POLICY ON UNEMPLOYMENT

On 14 September we are to discuss the CPRS Report on Unemployment and the Minford/Smith study of 16 September, on the basis of the papers attached to your Private Secretary's letter of 30 September. You may like to have some immediate reactions in advance of that discussion.

2. There is much that I can readily agree with in the general diagnosis in both reports. It is indeed pretty familiar. Understandably enough, the difficulties arise when we turn to prescriptions for action, and to priorities among them.

3. First, both studies, and particularly the Minford/Smith one, invite us to do some radical and politically very contentious things. It follows that the papers need to be handled very carefully - as your Private Office have rightly insisted; and that we need to establish at the outset just how robust and certain are the mechanisms by which the major measures are claimed to produce results; how quickly these results would be achieved; and how confident we could be of their scale.

4. Second, there is the question of estimated costs, if we are to take all the measures to the extent proposed. I was surprised by the net direct costs indicated in the Minford/Smith study: my first impression was that £7 billion would be nearer the mark than the £4.6 billion suggested (and I have asked Terry Burns to explore this with Alan Walters). But even if the direct costs figures are right, we need to probe the claims of big offsets producing



net costs of only £2½ billion in 1983-84 rising to £3¾ billion in 1984-85 before falling back to £2 billion. Clearly very considerable "Laffer-type" effects are expected, and I am bound to wonder about the eventual scale of these, and still more about the timescale suggested.

5. Moreover, even if we could rely on these net figures, I think it may be optimistic to suggest, as Alan Walters does in his covering minute, that £2½ billion is within reach without jeopardising our financial strategy. The fact is that we just do not know at this stage how much room we shall have at Budget time. And there will be rival claims on the table.

6. Finally there is the obvious matter of political, legislative and administrative constraints. We cannot, I am sure, simply assume these to be insuperable; we must be ready to look at hard courses, including ones we have looked at before. But we must draw sensibly on the lore and experience we already have about many of the ideas, and recognise their history - for example, the Minford idea for "benefit cap", which is effectively Wage Stop under another name, failed to win collective support not long ago.

? 7. All this leads me to believe that we must go forward methodically, without forcing the pace. One step I suggest we might authorise straight away is dialogue between suitable experts in Departments and the authors of the Minford/Smith report, to clarify and test aspects like those noted in paragraphs 3-4 above. We shall then need some means, in the light of whatever general policy preferences and guidance emerge from your meeting, of sifting the very large range of possibilities now on the table, and deciding on priorities.

8. Copies of this minute go to those who will be attending your meeting.

G.H.
G.H.

11 October 1982

Manpower, Special Employment
measures, Pt 8

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v) Mr Tebbit said that he was concerned about the circulation ^{main paper} of the Minford-Smith study. He had directed that this study should not go outside his office in the Department of Employment nor be photographed, and he was concerned that he had received a letter from No 10 containing photo copies of extracts a l b e i t with the instruction that they should not go beyond Priate Office. He thought it undesirable that this report should be photocopied at all. The Prime Minister agreed that circulation of such documents needed to be very closely controlled and she would give instructions personally about the distribution of such documents by her office or the Cabinet Office.

Extract from
the record of
PM's Meeting
with S/SEmp
on 11/10/82.

On the content of the Minford-Smith study, Mr Tebbit said that this study was similar to Professor Minford's Selsdon group paper, and he understood that work by the Treasury had discredited some of this. He did not think that it would be possible to "cap" unemployment benefit before the next election and he was worried about the estimates of cost of the two stage family benefit. The Prime Minister agreed about the first point, but said that it would be very difficult for the Government to take the necessary action if it was prohibited from doing anything which resulted in some people losing their present benefit.

- vi) Mr Tebbit said that he would want to come back to the Prime Minister about the proposed increase of £5.00 in the maximum weekly pay figures qualifying for subsidy under the young workers' scheme. The Prime Minister said that she was very reluctant to see increases made in these figures; she would rather put pressure on the wage councils to reduce their recommendations. Mr Tebbit said that his concern was that take up of the young workers' scheme would be reduced if the maximum figure were not raised.
- vii) Mr Tebbit said that he was much in favour of David Young's ideas on the development of the Manpower Services Commission's activities in long term training and education. He would be discussing them with Mr Young and also pursuing with the Secretary of State for Education the suggestion that technical schools should be re-established.
- viii) Mr Tebbit mentioned that he was resisting ODA ideas for financing tours by trade union leaders around the Commonwealth.

F.R.B.

11 October 1982