

PRIME MINISTER

UNEMPLOYMENT MEASURES

A few comments on the minutes from the Chancellor, the two from Norman Tebbit and one from Norman Fowler. The harvest from the original crop of ideas is a poor one, and the conclusions of the meeting would be best announced together to bulk larger.

Budget
or before?

ms

I follow the order and numbering of Peter Gregson's brief to you.

5. CHANCELLOR OF THE EXCHEQUER'S MINUTE

- i. Business Start-Up Scheme. The sooner this is extended to existing companies, the better. The Budget would be an ideal opportunity.
- ii. and iii. Labour Taxes and Employment Subsidies. Naturally, we would like to reduce or abolish all labour taxes, not least NIS. But the question of regional labour taxes and subsidies is rather inadequately dealt with. The objections of "high deadweight . . . and limited influence on location decisions" misses the point. Regional Employment premia and the like are not primarily intended to attract employers of labour from the South-East to Merseyside. They are intended to make it cheaper for a Liverpool employer - new or established - to take on more staff, and so reduce the job-destroying effect of national trade union pay rates.

We hope the Quinlan review will consider sympathetically the beneficial "regional devaluation" effect of local labour subsidies for our new shrunken Assisted Areas.

- iv. We hope that raising thresholds will be not merely "a crucial Budget decision" but also "the top Budget priority"!
- v. Public Expenditure Planning. The officials' note is more sympathetic than hitherto to the possibility of stimulating "more public sector capital spending of a labour-intensive kind".

Only yesterday, John Stanley had to tell the House that English local authorities spent no more than 42% of their basic housing allocation last year - only 35% if you include the prescribed amount of their capital receipts from the sale of council houses.

We cannot allow the DOE's fear of an even worse underspend next year to come true. We have to take imaginative measures, however make-shift. Yet Leon's letter to Michael Heseltine (20 December) in effect says that nothing can be done under the existing system of local authority spending. Therefore we have to act outside that system.

We support the suggestion that MSC should be put in charge of a scheme to invite, scrutinise and subsidise additional projects for labour-intensive investment - with the one proviso that these projects must constitute essential public works.

The advantage of using MSC is that it would be less likely than, say, the DOE, to give the wrong signals about the Government's determination to control public expenditure, since it is removed from the hurly-burly of the RSG settlement.

6. SECRETARY OF STATE FOR EMPLOYMENT'S MINUTE

- i. Enterprise Allowance (paras. 3-4). This does seem a waste of money. At £3,000 per person off the register, the cost is high, and there are other ways of encouraging small business to start. Should be scrapped.
- ii. Full-time job release scheme (paras. 5-8). The costs mount year by year, for example towards £1 billion in 1987-88 if the scheme is indefinitely extended to the age of 60. But job release is preferable to a permanent flexible retirement scheme, because it can be reversed when employment prospects improve. Should be cautiously extended to cover 60-year-old men, as funds permit.
- iii. Partial retirement option (paras. 9-11). Easily the best of the options. Negative cost per person, and has humane attraction for people who would like to wind down to half-time. Should be introduced.
- iv. Temporary-short-time working compensation (paras. 12-13). We wonder how many jobs it has really kept safe. It is economically dubious and open to fiddling, but it is cheap (£140 per head). We certainly do not want a permanent scheme which would be a permanent wage subsidy. Could be extended for one more year if the package looks thin without it.

v. Workfare (paras. 14-15). Department of Employment has only just begun to explore the idea, and clearly finds the element of "compulsion" distasteful. The genuine difficulty is how to fit any Workfare scheme in with the Community Programmes. The answer is to devise a Workfare condition within the Community Programme, but for the Under-21s only, and only after the Programme is in full swing, say in 1985. This would not involve any true compulsion, because the under-21s who are mostly living at home could scrape by without benefit. And it would compare favourably with countries such as West Germany where no benefit is payable to the young.

7. SECRETARY OF STATE FOR EMPLOYMENT'S FURTHER MINUTE OF 20 DECEMBER

If we want to make changes, it would be best if they can be quick and simple. We should try to avoid both primary legislation and political controversy as far as possible.

i. Unfair Dismissal Protection (paras. 2-5). We support Mr Tebbit's rejection of the CPRS proposal. Giving employees the power to "waive their rights to protection" sounds unpleasantly like bartering one's birthright. We are more dubious about exemption for new employers. This creates unequal treatment as between firms of the same size. Our preference is for the extension from 2 to 5 years for firms employing 20 people or less. This is what most people think of as a small firm - where face-to-face relations are all-important, and in which the employer finds it difficult to "carry passengers". Similarly, we endorse the idea of exempting altogether the very small firm with less than 5 employees - particularly as this does not require legislation.

ii. and iii. Redundancy Payments and Maternity Provision (paras. 6-8). Again, we support Mr Tebbit. The likely benefits are too small to outweigh the protests of the feminist lobby and the allegations that we were robbing people of their redundancy rights.

8. SECRETARY OF STATE FOR SOCIAL SERVICE'S MINUTE

i. and ii. The DHSS appear reluctant to tighten up the rules for claiming benefit. Their arguments tend to be based on sweeping assertion and inclined to contradiction. In paragraph 2, it is claimed that "The work of my unemployment review officers is very effective" and that "a much more sweeping approach does not seem likely to produce such

effective results". On the other hand, Note A, paragraph 5, says "The main problem arises with younger people who may be content with comparatively low benefit rates which provide them with what is virtually pocket money. They can therefore live fairly comfortably without work, or afford to wait until they are offered well-paid work". Yet the previous paragraph argues that very few vacancies are left unfilled because of low pay.

The DHSS will never of its own volition come up with tighter rules. We suggest that you ask for an independent study to be carried out (and published) into the rules for the payment of unemployment benefits here and abroad.

iii. and iv connect with the job release section in the Department of Employment's paper. I cannot see the advantage of extending the disregards of part-time earnings to long-term unemployed men. This merely encourages them to stay on the register and is unfair, not only to the retired and the disabled, but to the low-paid in full-time employment.

Extending job release to the 50-59-year-olds after 2 years on the register is not only expensive - up to £1,500 per person off the register - but would tend to lure many people permanently out of the labour force at an age when they might be at their peak. Spare funds should be devoted to job release for the 60-65-year-olds.

We believe that these proposals should both be dropped.

v. and vi. The DHSS is still working on these, if not with much enthusiasm. I do not believe that we can go into the Election without some improvement in the position of lower-income families with young children. The two-tier child benefit scheme is one route; because it comes from the Post Office and still is thought of as the Family Allowance, it is, I think, less perceived as a "welfare benefit" than the non-universal DHSS benefits. But if you would prefer help to come through the wage packet (as Patrick Jenkin and some others at the Family Policy Group clearly did), then there is a case for a Family Responsibility Tax Allowance for parents of under-5s. This would raise the tax threshold for those who now suffer most acutely from the Poverty Trap. We have already suggested that the Treasury should be asked to give their views on this possibility and the alternatives to it.