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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

INDUSTRIAL SUPPORT AND EMPLOYMENT MEASURES

Memorandum by the Central Policy Review Staff

1. The Chancellor's paper (E(80)109) discusses the case for additional expenditure of up to £60 million in 1981/82 and subsequent years on industrial support measures. The Secretary of State for Employment's paper (E(80)110) puts forward the case for additional expenditure of £310 million in 1981/82 (£410 million in 1982/83 and £380 million in 1983/84) on various employment measures. The purpose of this note is to draw attention to considerations which are equally relevant to both papers.
2. First, it is clear that there are severe constraints on what can be afforded. Cabinet has already agreed in July (CC(80)28th Meeting) that further consideration of the scope for giving greater priority to employment and industrial support measures should be within present public expenditure totals.
3. Second, Ministers need to bear in mind that the situations faced on both the industrial and employment fronts are not new or unexpected developments. They are to a large extent the necessary and anticipated results of the Government's strategy to bring down inflation and interest rates by reduction in growth of money supply, and containment of public expenditure and the PSBR. Within existing macroeconomic policies, these difficulties have to be faced if the strategy is to succeed in its medium term objectives. It will, however, be necessary to monitor the situation closely so as to distinguish between (i) pain that has to be endured if the strategy is to succeed, and (ii) serious damage to those parts of the industrial base which can be viable by international standards and which are needed for the nation's long-term economic and social well-being. The key judgement is going to be in balancing firmness in adhering to the policy against the extent of such damage. (For example, the strength of the exchange rate currently needs to be a cause of serious concern.)

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4. Third, any expenditure measures within the existing strategy can have only a very limited impact in relation to the scale of present problems on corporate liquidity and unemployment. To make an appreciable impact in the short-term would require expenditure (or tax measures) on a scale which could not be reconciled with the strategy.

5. Against this background, the CPRS thinks (until there is evidence of severe damage which makes more drastic action unavoidable) there are two main grounds for some strictly limited additional measures: first, as a gesture of political concern (which could pre-empt pressures for wider measures inconsistent with the strategy); and, second, as a means of limiting some of the damage for future prospects which the present recession may otherwise inflict. This points to measures which concentrate on preserving capacity and human skills for future industrial growth. It suggests avoiding measures which are indiscriminate, or simply concerned with mitigating present pain.

6. On these criteria the CPRS's comments on the two papers are as follows.

7. Industrial support. The "seedcorn" measures outlined in E(80)109 deserve support if they can be afforded. The objective is to protect certain types of discretionary expenditure, in particular expenditure on development of marketable products and processes, which might otherwise be at risk. The overall total is tightly drawn, and if expenditure is not to be too thinly and ineffectively spread, a programme on these lines is bound to be highly selective. This is a notoriously difficult task for Government. The paper and the Annex are clearer on the instruments of expenditure than the criteria of selection. Some of these criteria emerge - viz. potential growth areas in new technologies and major export opportunities. And it is an underlying principle that Government assistance should not be given except where there is also a substantial financial commitment by firms themselves. But, if the package goes ahead, more will need to be done to clarify the conditions and priorities for intervention.

8. Employment measures. The total gross cost of these proposals is large and will be very difficult to accommodate within overall expenditure objectives. To the extent that unemployment is reduced, the net cost will also be reduced. Due to savings in social security benefits and additional tax take. But we believe Ministers should be wary of relying on such offsetting savings. Jobs created this way tend to displace other jobs. To the extent that a package is kept within planned expenditure ceilings it will displace other public expenditure which also creates jobs (even if not so many). To the extent

that it exceeds planned targets interest rates or taxes have to be higher than they would otherwise have been, also displacing jobs.

9. Given the limited impact on unemployment totals of any package, the CPRS believes the main objective should be the protection of future prospects and skills rather than the immediate impact on the unemployment register. On this basis maintaining YOP at its present level, expanding it within what can be afforded, and strengthening its training content, is the most important of the proposals put forward. Ensuring that school leavers acquire skills and work experience should help to secure a more adaptable and efficient future labour force. If any more can be afforded, measures to stop the long-term unemployed from losing the habit of work (the proposed Community Enterprise Programme (CEP)) and measures to encourage older workers to make way for younger ones (the Job Release Scheme (JRS)) seem a better investment than measures to preserve jobs for six months in industries which are unlikely to turn round in that time (the Temporary Short-Time Working Compensation Scheme (TSTWCS)).

10. Rather more YOP opportunities could be provided within a given total if the allowances to young people were kept at their present money level rather than given even the partial uprating for inflation proposed in the Secretary of State for Employment's paper. The CPRS believes this would still leave an adequate incentive for YOP compared with supplementary benefit levels.

11. The Secretary of State for Employment suggests (paragraphs 7 and 8 of E(80)110) longer term commitments for both YOP and Unified Vocational Preparation (subject to resource constraints). We think the objective of fitting these schemes into a longer term strategy for young people is an important one, but more work needs to be done to develop such a strategy. There could be important links with work which Ministers have already put in hand on financial provision for 16-18 year olds. Radical options for changing the structure of allowances and benefits for young people (with possible major savings) could be associated with commitments to improved training opportunities.

12. Conclusions. The CPRS recommends -

- (a) that the overall situation should be kept under close review to establish the extent of serious damage to basically viable parts of the industrial base in case more drastic action is needed to preserve these than is encompassed in the proposals now being considered;

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- (b) that, in considering immediate proposals for both industrial support and employment, priority should be given to conserving future growth prospects and skills, rather than easing immediate problems;
- (c) that the package for selective industrial support deserves support, but that criteria of selection should be further clarified;
- (d) that, within the employment proposals, priority should be given to YOP (possibly with no increase in the allowance), and that any necessary reductions in the bid should fall on TSTWCS in the first place, and on CEP and JRS next;
- (e) that longer term commitments on YOP and Unified Vocational Preparation should be deferred pending further work.

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