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E(80) 36th Meeting

COPY NO 56

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at  
10 Downing Street on  
WEDNESDAY 15 OCTOBER 1980 at 9.30 am

PRESENT

The Rt Hon Margaret Thatcher MP  
Prime Minister

The Rt Hon William Whitelaw MP  
Secretary of State for the  
Home Department

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP  
Secretary of State for Industry

The Rt Hon James Prior MP  
Secretary of State for Employment

The Rt Hon Peter Walker MP  
Minister of Agriculture,  
Fisheries and Food  
(Item 1)

The Rt Hon Michael Heseltine MP  
Secretary of State for the  
Environment

The Rt Hon David Howell MP  
Secretary of State for Energy

The Rt Hon John Biffen MP  
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir Ian Gilmour MP  
Lord Privy Seal  
(Item 1)

The Rt Hon George Younger MP  
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP  
Secretary of State for Wales

The Rt Hon Humphrey Atkins MP  
Secretary of State for  
Northern Ireland

The Rt Hon Patrick Jenkin MP  
Secretary of State for Social Services  
(Item 1)

The Rt Hon Mark Carlisle QC MP  
Secretary of State for Education  
and Science  
(Items 1 and 2)

Mr J R Ibbs  
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong  
Mr P Le Cheminant  
Mr D J L Moore  
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1. SPECIAL EMPLOYMENT MEASURES

The Committee considered a memorandum by the Secretary of State for Employment E(80) 110 on special employment measures. They also had before them a memorandum commenting on those measures by the Central Policy Review Staff (E(80) 116) and a letter of 7 October from the Chief Secretary, Treasury to the Secretary of State for Employment.

THE SECRETARY OF STATE FOR EMPLOYMENT said that unemployment was continuing to rise at a sharp rate. This was partly the result of the recession but industry appeared also to be taking the advantage of the opportunity to slim down their work forces by redundancies which they should have declared before. If the Government was to sustain its policies in this situation it would be important to reinforce its special employment measures to help young people and the longer term adult employed who were particularly vulnerable during the transitional period. His main proposal for the young unemployed was to continue the Youth Opportunities Programme (YOP) and to improve the present arrangements by guaranteeing to offer YOP places to all school leavers who had not had a job or a YOP place by the Christmas following the academic year in which they had left school and to all other sixteen and seventeen year olds unemployed for more than three months, rather than twelve months as now. To reduce the additional costs of these measures he was willing to accept that there should be no increase in the weekly YOP allowance of £25.50; and to consider reducing payments under the parallel Community Industry Scheme. He proposed gradually to expand the programme of Unified Vocational Preparation (UVP) for young people in jobs without systematic training or further education. In the longer term his aim was for further improvements in both the YOP and in the coverage of the UVP so that by the end of the decade training would be available to a high proportion of young people. To increase the opportunities for the longer term adult unemployed he wished to replace the regionally based Special Temporary Employment Programme by a new nation-wide Community Enterprise Programme (CEP). CEP would place more emphasis on projects of environmental improvement, particularly in areas of high unemployment, and would be developed in partnership with private sector industry and voluntary agencies. He proposed to continue the Job Release Scheme (JRS) and, in 1981-82 only, to make it available to men aged 62 and 63 as well as 64. Finally he proposed to continue, but not to improve, the Temporary Short Time Working Compensation Scheme (TSTWCS) which helped firms avoid redundancies by giving support for up to six months. In total these measures would require additional public expenditure of £310 million

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in 1981-82, £410 million in 1982-83, and £377 million in 1983-84. Much of this was necessary simply to maintain existing schemes and undertakings for a greater number of unemployed. The net cost would be substantially lower if allowance was made for savings on benefits which would otherwise be paid, and for receipts from the European Social Fund. In considering these proposals further with the Chief Secretary, Treasury, he would be able to offer some offsetting savings from his programmes, though he could obviously not find the whole cost.

THE CHANCELLOR OF THE EXCHEQUER said that, while he accepted the case for special measures to help the unemployed, and particularly the young, it was inevitable that provision for them would have to be found by adjusting priorities within the overall ceiling on public expenditure. Final decisions should therefore be taken in the context of the Cabinet's forthcoming discussion of the public expenditure programme as a whole. Moreover, while measures of the kind proposed would help in the transitional period, the Government's main objective - and the main hope for the unemployed - lay in reviving output and employment. The necessary conditions for this were reduced public expenditure and borrowing, so that interest rates and the exchange rate could be brought down. There were considerable problems in keeping public sector borrowing within target in the current year and, in the course of the public expenditure discussions, it would be necessary to consider very difficult options for 1981-82 and later years.

THE CHIEF SECRETARY, TREASURY, said that in discussing with the Secretary of State for Employment the additional provision which he could recommend for inclusion in the public expenditure programme, there were a number of options which he would wish to consider. He questioned whether the rates payable under the YOP should be improved; and he would like to implement the recommendation that under the Community Industry Scheme there should be a change from payment of wages to allowances. Savings could be made if the CEP were confined to the development areas; and if the level of allowances under the TSTWCS were reduced. There was a danger in reducing the JRS age limit in 1981-82 since failure to increase it again in the later years would be very costly.

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In discussion the following points were made -

a. The main way in which the Government could help industry was by substantial reductions in public expenditure and borrowing which would enable reductions in interest rates and the exchange rate. Otherwise there would be no growth, and industry would be unable to provide genuine long term employment as distinct from temporary jobs financed by public expenditure on employment measures. In reducing public expenditure it would be crucial to take a tough line on public sector pay, and decisions on this should be taken as soon as possible. Expenditure on job creating and providing activities should not be cut back to finance excessive public sector pay; and it would be desirable to avoid to the greatest possible extent further cuts in capital formation and construction which would have directly adverse effects on the level of activity and employment in industries which already faced considerable problems.

b. It was generally agreed that in the short term some further public expenditure on special employment measures was necessary, particularly to assist the young. Without such measures there could be a risk of social unrest in areas of high unemployment.

THE PRIME MINISTER, summing up the discussion, said that the Committee provisionally accepted that special employment measures were necessary in present circumstances. In particular they endorsed the aim of giving priority to helping the young unemployed. It would however be for Cabinet to take final decisions on the specific proposals in the context of their discussion of the public expenditure programme as a whole. In the meantime the Secretary of State for Employment should discuss further with the Chief Secretary, Treasury, the possibilities for reducing the cost of his proposals and for finding some offsetting savings from within his programme.

The Committee -

1. Invited the Secretary of State for Employment to discuss further with the Chief Secretary, Treasury, the possibilities for reducing the cost of his proposals and for offsetting savings from his other public expenditure programmes.
2. Invited the Chief Secretary, Treasury, to take account of the proposals in E(80) 110, and of the outcome of his further discussion with the Secretary of State for Employment, in his report to Cabinet on the public expenditure programme 1981-82 to 1983-84.

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2. INDUSTRIAL TRAINING

The Committee considered memoranda by the Secretary of State for Employment (E(80) 111) and by the Central Policy Review Staff (CPRS) (E(80) 117) on industrial training.

THE SECRETARY OF STATE FOR EMPLOYMENT said that he invited the Committee to agree that the number of Industrial Training Boards (ITBs) should be substantially reduced and that other public expenditure on training should be maintained as set out in option D in the report by officials attached to E(80) 111. Under this approach the Government would no longer fund the operating costs of the remaining ITBs, and his present public expenditure plans assumed a saving of £45 million a year on that count. He would need to introduce legislation by the end of the year to provide for the abolition of ITBs, and for those few boards remaining to finance their operating costs by levies on industry rather than from the Government. He would put forward firm proposals on this in early November when the current consultations on the Manpower Services Commission's report on the training provisions of the Employment and Training Act 1973 were completed. At the same time he would make proposals for a consultative document, to be published by Christmas, setting out the Government's views on the longer term development of industrial training policy. His aim was to reorder priorities and he was not asking for additional public expenditure for his remaining training programmes.

In discussion it was agreed that major changes were necessary in industrial training. Priority should be given to achieving a more effective relationship between industrial training and the educational services. Every effort should be made to discourage restrictive practices, particularly those associated with the apprenticeship system, where the employers were often as resistant to change as the Unions. Higher priority should be given to training for the new high technology industries, so that the right skills were available to attract and sustain investment in them. Overseas companies in particular, attached great importance to the availability of trained personnel in choosing sites for new projects.

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THE PRIME MINISTER, summing up the discussion, said that the Committee endorsed the recommendations in E(80) 111. They would consider the precise arrangements for the future of the ITBs when the Secretary of State for Employment made firm proposals in November. The Committee agreed that there was a need for radical changes in industrial training, and in particular that the relationship between the training and education services should be re-examined and improved. The Secretary of State for Employment should consider further how these ideas, and those in the CPRS's memorandum (E(80) 117), should be developed, and make further proposals when he reported in November. In this further work he should consult the other Ministers directly concerned; including especially the Secretaries of State for Industry, Education and the Environment, and the Central Policy Review Staff.

The Committee -

1. Endorsed the adoption of the broad approach in option D in the report annexed to E(80) 111.
2. Invited the Secretary of State for Employment to make further proposals in November -
  - i. on the arrangements for Industrial Training Boards;
  - ii. for further work, in consultation with the other Ministers concerned and the Central Policy Review Staff, preparatory to the production of a consultative document on the longer term development of industrial training policy.

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3. INDUSTRIAL SUPPORT MEASURES

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The Committee considered a memorandum by the Chancellor of the Exchequer (E(80) 109) on industrial support measures. They also had before them a memorandum by the Central Policy Review Staff (E(80) 116).

THE CHANCELLOR OF THE EXCHEQUER said that his memorandum was the outcome of his discussions with the other Ministers concerned of the options for additional measures of industrial support. He judged that, provided that the additional expenditure could be accommodated within the overall public expenditure ceiling, there was a case for measures costing up to £60 million a year in support of research and development. These proposals apart, he had decided against any further measures to ease the liquidity pressures on industry, although he would be ready to discuss any tax proposals with colleagues in preparing for his next Budget. In particular he had decided against recommending the removal of the four month deferment on payment of Regional Development Grants (RDGs). This would cost around £140 million and the benefits would be widely diffused. There was however a case for cutting out the administrative delays which currently added to the four month deferment.

THE SECRETARY OF STATE FOR INDUSTRY said that if additional expenditure were approved he would use it to protect 'seed corn' expenditure which firms might otherwise cut back in the face of short-term cash flow pressures and at the expense of their future competitive position. It would be possible to do this by using existing instruments of industrial assistance. In each case it would be a question of topping up finance provided by the firm itself in order to enable a project to go ahead which might otherwise have been dropped. It should be possible to use some of the money to pursue public sector purchasing objectives; to develop the Secretary of State for Trade's Market Entry Guarantee Scheme and to extend the exchange risk guarantee scheme.

In discussion the following points were made -

- a. Although expenditure of this order might help to mitigate current difficulties, it would not alter the general prospect of no net increase in overall investment before mid-1985. On the other hand, while total investment might not be increasing, there was a good deal of new investment in progress, and an increasing interest in the possibilities for inward investment in the assisted areas. The main reason for the current stagnation in investment was the absence of profitable projects.

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b. There was a case for directing some of any additional expenditure to the energy equipment industry. This was a growth industry and, if British manufacturers were to keep pace with their international competitors, they needed a good home market. The suggestion in E(80) 109 that there might be a modest increase in funding for the Energy Conservation Demonstration Project was therefore welcome.

c. If these further measures of selective assistance were to go ahead it would be important to clarify the conditions and priorities for intervention and selection.

THE PRIME MINISTER, summing up the discussion, said that the Committee provisionally endorsed the proposals for additional industrial support set out in E(80) 109. They agreed that there was no room for expenditure measures to relieve corporate liquidity. They attached importance to removing any administrative delays which added to the four month deferment on payment of RDGs. The Cabinet would take final decisions on additional provision for industrial support when they discussed the public expenditure programme as a whole.

The Committee -

1. Provisionally endorsed the proposals in paragraph 13 of E(80) 109.
2. Invited the Chief Secretary, Treasury, to consider, in his report to Cabinet on public expenditure 1981-82 to 1983-84, the prospects for adjusting public expenditure priorities to accommodate these measures.

Cabinet Office

16 October 1980

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